

## FINANCIAL TIMES

Europe's Business Newspaper

WEEKEND OCTOBER 22/OCTOBER 23 1994

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EU averts budget  
crisis with deal  
on Italy's fines

European Union finance ministers reached a compromise over fines due from Italy for cheating on its milk production quota. The settlement resolves the crisis over the union's planned budget increase and means that enlargement due to bring in Austria, Finland, Sweden and Norway next year, can proceed. Page 28

**US and North Korea sign accord:** The US and North Korea signed an agreement to defuse nuclear tension in the Korean peninsula in spite of international doubts about the wisdom of providing aid and technology to a country that flouts the Nuclear Non-Proliferation treaty. Page 26

**Actor Burt Lancaster dies aged 80**



Actor Burt Lancaster died at his home in Los Angeles, aged 80. He had been in poor health for some time. He appeared in more than 70 films including *From Here to Eternity*, *Elmer Gantry*, for which he received an Academy Award, and *The Birdman of Alcatraz*. He made his last film, *Voyage of Terror*, in 1990.

**CIS to form economic committee:** The 12 former Soviet republics which belong to the Commonwealth of Independent States took a tentative step towards closer integration by agreeing to form a supra-national economic committee. Page 2

**Satellite boss dismissed:** Societe Europeenne des Satellites, the company that operates the Astra satellite system, dismissed its director-general, Pierre Meyrat. SES said Mr Meyrat, a pioneer of satellite television in Europe, had "been released from his duties". The departure is in spite of letters of support from customers.

**Cigarette profits lift American Brands:** A big increase in profits from cigarettes helped US consumer products group American Brands lift net income 79 per cent to \$152m in the third quarter. Page 11

**Clinton to visit Syria:** US president Bill Clinton will visit Damascus next week for talks with Syrian president Hafez al-Assad on negotiations between Syria and Israel. Israel shells guerrillas in Lebanon. Page 3

**Poor US sales hold back Kellogg's:** Poor sales in the US held back profits growth at Kellogg, the US breakfast cereal maker, in the three months to September. Net income rose 4 per cent to \$216.7m. Page 11

**Japan's brokers stall at halfway:** Interim earnings at Japan's leading brokers were held back by lower-than-expected stock market volume which resulted in reduced stock broking commissions. Page 11

**Value of British Coal assets questioned:** The successful bidders for British Coal mines have offered far more than is being paid for coal assets on the international market, a report says. Page 10

**Lloyd's agents to appeal in Gooda cases:** Lloyd's of London insurance market agencies facing record claims for compensation from members after the High Court judgment against them in the Gooda Walker case are to go to the Court of Appeal. Page 6

**Farmers face tough 'green' measures:** UK agriculture minister William Waldegrave is discussing proposals to force European Union cereal farmers to adopt environmentally friendly practices in return for the \$2.1bn (\$12.8bn) annual payments they receive as compensation for cuts in grain prices. Page 4

**Pearson to buy magazine group:** Pearson, the media and information group that owns the Financial Times, has agreed to buy Future Publishing for \$22.5m (\$33m). The company specialises in computer and consumer magazines.

**Tunnel train delayed again:** A Channel tunnel Eurostar train broke down for the second consecutive day. BR chairman Sir Bob Reid and Eurotunnel joint chairman Sir Alastair Morton were among 400 passengers delayed for two hours at Calais station on their way to Paris from London. Page 6

**Clocks go back in UK:** Summer time ends in the UK at 2am on Sunday. Clocks will be put back one hour.

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## Fayed gave Tories £250,000 after Harrods takeover

By Robert Peston and David Owen

Mr Mohamed Fayed, the Egyptian financier whose allegations about payments to MPs have thrown the government into disarray, said last night that he had made personal contributions totalling £250,000 to the Conservative party in the mid-1980s.

The contributions were made after he and his two brothers acquired House of Fraser, which owned Harrods department store in London, in 1985.

Following the takeover, the government faced lobbying from the Fayed's arch rival, Mr Tiny Rowland, chief executive of the international group, Lonrho,

that it should take action against them for alleged misconduct during the £615m House of Fraser takeover.

According to Mr Michael Cole, a Harrods director who was speaking for Mr Fayed, the funds were "handed personally to Lord McAlpine", at the time honorary treasurer of the party.

The Conservative party said last night that it had a rule of never commenting about personal donations. Lord McAlpine was unavailable for comment. However, Mr David Blunkett, the former Labour party chairman, said the disclosure of these payments was damaging to "the democratic process".

There was also mounting pressure last

night for the resignation of Mr Neil Hamilton, the corporate affairs minister named by Mr Fayed earlier this week as one of two government ministers who had received payments for asking parliamentary questions.

Though Mr Hamilton has denied the allegations, Mr Alex Carlile, Liberal Democrat MP for Montgomery, called for an inquiry into Mr Hamilton's stay at the Ritz, the Paris hotel owned by the Fayed. He made his request in a letter to Sir Geoffrey Johnson Smith, chairman of the Commons committee on members' interests. Mr Hamilton is alleged to have had an all-expenses paid stay at the Ritz. Mr Carlile wants the

committee to decide whether the trip should have been disclosed in the register of members' interests.

Mr Hamilton's decision to stay in his post has been supported by Downing Street, following a three-week investigation by Sir Robin Butler, the cabinet secretary. There was speculation at Westminster that the conduct of a third minister - together with Mr Tim Smith, the junior Northern Ireland minister, who resigned on Thursday - had been investigated by Sir Robin.

Downing Street last night said it was not in a position to "confirm or deny any such things". Mr Fayed's payments to the Conservative party have never

been made public because personal payments to political parties, unlike corporate ones, do not have to be disclosed.

Lonrho, which also wanted to buy House of Fraser, alleged that the Fayed had not used their own money for the takeover. Department of Trade and Industry inspectors were appointed in 1987. Their report, not published till March 1990, concluded that the Fayed had "misrepresented... their wealth... and resources". In spite of these criticisms, no action was taken by the DTI to disqualify them as directors of UK companies.

Doyen of the lobbyists, Page 8

## Dublin welcomes package of Ulster confidence-building measures

## Major paves way for start of talks with Sinn Féin

By Philip Stephens in London and John Murray-Brown in Belfast

Mr John Major, the UK prime minister, moved to entrench peace in Northern Ireland yesterday with an extensive package of confidence building measures. He announced the government was ready to open exploratory talks with Sinn Féin, the IRA's political wing, before the end of the year.

In a landmark speech in Belfast in which he confirmed the government's "working assumption" that the IRA intended a permanent end to violence, Mr Major disclosed plans for a steady easing of security measures in the province.

His comments evoked a warm response in Dublin, modest encouragement from the Ulster Unionists and calls from Sinn Féin for direct negotiations not to be delayed. But Dr Ian Paisley, leader of the Democratic Unionists, accused Mr Major of "caving in" to the IRA.

Mr Major, who is to meet Mr Albert Reynolds, the Irish prime minister, on Monday, also emphasised his determination to accelerate negotiations on a new political settlement.

In spite of the refusal of Sinn Féin explicitly to renounce violence for good, he said, the actions of the Republican movement during its six-week ceasefire pointed to a permanent end to the violence.

The orders excluding Mr Gerry Adams and Mr Martin McGuinness

Ulster peace process: Page 5

■ Paisley condemns initiative  
■ Major takes risks  
■ Sinn Féin aims to unite

■ Editorial Comment: Page 8

ness, the two leading spokesmen for Sinn Féin, from the British mainland were lifted. All border crossings with the Republic are being reopened.

Declaring that "from this moment we are in a new phase of the peace process", the prime minister said measures marked the start of a "full return to democratic life". The aim was "to make a return to violence unthinkable".

Mr Major spelled out plans to create a new Ulster assembly and laid out the principles that would guide negotiations with the Irish

Republic on a constitutional framework for the province.

His speech included also a commitment to a large-scale initiative to rebuild the Northern Ireland economy with a concerted effort to encourage inward investment and substantial European Union aid.

Overall, it marked a carefully balanced effort to reassure the unionist community of their continuing veto over the province's constitutional future while meeting the concerns of the nationalist community.

The prime minister's talks with Mr Reynolds are designed to remove the remaining obstacles to a joint framework document on relations between the two governments and between Northern Ireland and the Republic.

Mr Major indicated that once the document is completed, the British side will publish also its ideas for a new, devolved assembly in Northern Ireland. The proposed assembly, which would be elected under a proportional voting system, would give representation to all shades of opinion in the province.

But in a warning of the difficulties to come, Mr Major said a lasting peace could be guaranteed only when the IRA and loyal-



John Major speaking to the press at Stormont Castle, Belfast, with Northern Ireland secretary Sir Patrick Mayhew to his left

alist groups had surrendered their guns and explosives. He said the London government intended to establish a joint approach with Dublin.

Sinn Féin gave an insight into its likely negotiating position, warning that it would make the surrender of guns contingent on achieving broad political agreement.

Mr Mitchell McLaughlin, northern chairman of Sinn Féin, said he saw "the discussion on the political issues as part of the taking the gun out of Irish politics... Clearly there would have to be agreement on political structures to remove the potential for political violence. That political violence across out of a lack of agreement."

## Jaguar car workers reject 7.5% pay package

By Robert Taylor, Labour Correspondent

Jaguar car workers have overwhelmingly rejected a two-year pay deal worth 7.5 per cent in a move that has shocked the company and the trade unions that negotiated the agreement.

The decision aroused fears yesterday that discontent might spread to other parts of the UK car industry as economic recovery increases the demand for cars and strengthens employees' bargaining power.

Next week, unions covering 28,000 employees at the Rover group will announce the results of a workplace ballot on a 7.7 per cent, two-year pay offer. Nissan and Peugeot Talbot negotiate in November. Ford will increase pay by 3.5 per cent on November 24 as part of a two-year deal.

Both sides at Jaguar are expected to meet in the next few days to try to revise the offer. If they fail to secure an improvement, the unions are likely to call a strike ballot. The Jaguar workers threw out the offer by a six-to-four majority in a consultative ballot organised by the company's shop stewards.

An official of the Transport and General Workers union said it believed the Jaguar

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Pay rejection signals respite mood, Page 4  
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## Dollar rebounds after slump

By Philip Gawth and Philip Coggan

The US dollar rallied in London yesterday after a week in which it hit a postwar low against the Japanese yen and a two-year low against the D-Mark.

The rally followed remarks yesterday by Mr Lawrence Summers, undersecretary of interna-

tional affairs at the US Treasury, that the US administration would be prepared to intervene in the currency markets to support the dollar.

The US currency had dropped to ¥96.50 and DM1.4880 in Asian trading earlier following comments on Thursday by Mr Lloyd Bentsen, US Treasury secretary, which reawakened fears that the

US had returned to a policy of "benign neglect" towards the dollar. By the London close, the dollar was trading at ¥96.995 and DM1.4954. The dollar's

Continued on Page 26  
Japan calls for intervention, Page 3; Currencies, Page 15; London stocks, Page 15; World stocks, Page 25; Lex, Page 26

## STOCK MARKET INDICES

FT-SE 100: 3,082.8 (-30.4)  
Yield: 4.16  
FT-SE Eurotrack 100: 1,304.78  
FT-SE-A All-Share: 1,618.28 (-0.99)  
Nikkei: 10,698.08 (-32.52)  
New York's S&P 500: 3,888.27 (-22.68)  
Dow Jones Ind Avg: 3,888.27 (-22.68)  
S & P Composite: 484.85 (-2.0)

■ LONDON MONEY  
3-mo Interbank: 5 1/8% (same)  
Lite long gilt fut.: Dec 101 1/2 (Dec 101 1/4)

■ US Treasury bills  
Federal Funds: 4 1/4%  
3-m Treasury Bill: 5.102%  
Long Bond: 9 1/2%  
Yield: 7.876%

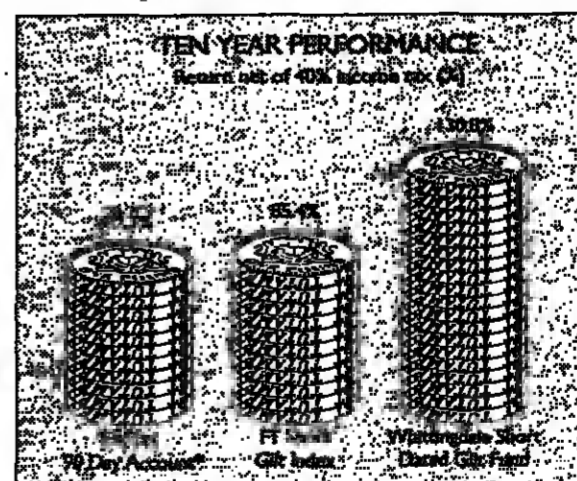
■ NORTH SEA OIL (Argus)  
Brent 15-day (Dec): \$16.25 (16.16)  
New York Crude (Dec): \$28.29 (28.33)  
London: \$28.07 (28.12)

■ GOLD  
New York: \$350.00 (350.00)  
London: \$350.00 (350.00)

■ DOLLAR  
New York lunchtime: \$ 1.6255  
London: \$ 1.6255 (1.62)  
DM 2.4845 (2.4325)  
FF 6.3432 (6.3381)  
SF 2.0277 (2.0266)  
Y 167.908 (167.866)  
£ Index: 90.4 (90.2)  
S Index: 90.8 (91.0)  
Tokyo close ¥ 96.98

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## NEWS: EUROPE

Summit adds to 'paper trail' of agreements on co-operation

## CIS states inch towards integration

By Christia Freeland in Moscow

The 12 former Soviet republics in the Commonwealth of Independent States took a tentative step towards closer integration at a summit in Moscow yesterday, agreeing to form a supra-national economic committee.

But many of the states expressed reservations about this and other political and economic agreements signed, and retained the right to opt out of CIS accords.

These hesitations suggest that, despite the decidedly upbeat tone of Russian President Boris Yeltsin at a concluding press conference, the CIS is unlikely to be granted the authority to overrule national governments soon.

Mr Yeltsin also made a veiled attack on Russian advocates of tough fiscal and monetary policy by strongly endorsing the bid by the embattled republic of Tajikistan to rejoin the Russian ruble zone.

During yesterday's meetings the Russian and Moldovan prime ministers agreed on the withdrawal of Russian forces from Moldova by 1997. Russia also pushed through an agreement on protection of national minorities, which could strengthen Moscow's efforts to speak for the 20m ethnic Russians living in other former Soviet republics, but many states, including Ukraine, appended reservations to their signatures of the agreement.

Mr Yeltsin, who expressed his satisfaction about the formation of the Inter-State Economic Committee, in which Russia will control 50 per cent of the votes and decisions are taken by an 80 per cent vote, admitted that real economic integration had not been achieved.

Agreements on forming a payments union - which might require a curtailment of national control over monetary policy if it is formed - and a customs union were also signed, but no details were released.

Later the Ukrainian prime minister, Mr Vitali Masol, told Interfax that Ukraine would not join the payments union.

## Ukraine to meet reform deadline

By Matthew Kaminski in Kiev

Ukraine will initiate a series of tough macroeconomic reform steps, possibly as early as today, to meet Wednesday's deadline set by the International Monetary Fund to release a first \$300m (\$27.8m) credit to aid the country's transition to a market economy.

The two most important measures involve liberalising wholesale and energy prices and unifying the country's myriad exchange rates. These reforms, the most radical since independence, would be the first implemented under President Leonid Kuchma's western-tailored programme to overhaul the country's economy.

According to Mr Vladimir Naumenko, deputy economics minister, Mr Vitali Masol, the conservative prime minister hostile to reform, signed on Wednesday night nine decrees

liberalising prices and trade, indexing pensions and wages and shoring up the social safety net.

Mr Naumenko added that the National Bank yesterday finalised plans to unify the exchange rates. The decrees likely to reassure western donors, mark a rare consensus within Ukraine's government.

Mr Masol signed the decrees under pressure from Mr Kuchma despite his criticism this week of plans to raise bread prices seven-fold, cut the budget deficit to 10 per cent of GDP and unify exchange rates. The finalising of the decrees will mean that Mr Kuchma will carry a stronger hand to Canada next week when he urges IMF, World Bank and G7 financial aid to help Ukraine cover a \$600m balance of payments gap for the fourth quarter and come up with about \$6.5bn in assistance to ease the economic transition.

## Flamboyant Catalan faces survival test

Tom Burns examines charges against Javier de la Rosa that have landed the controversial financier in deep water

Mr Javier de la Rosa, the flamboyant Catalan financier who since Wednesday has been sharing a small cell in Barcelona's Modelo prison, founded in deep waters before and came out swimming. But now he faces charges levelled by mostly retired people of modest means who claim he has swindled their savings.

These minority shareholders of Grand Tíbbado, the now bankrupt holding company that Mr de la Rosa acquired in 1991, accuse him of renegeing at least Pta3bn (£15m) towards his own private businesses.

Mr de la Rosa, now 47, has swum away from the wreckage before. In 1985 he resigned as head of Banca Garriga Nogues, a small Barcelona subsidiary of the Banesto banking group, to start a private investment career. The following year Garriga Nogues collapsed with bad debts of \$800m.

In May 1992 Mr de la Rosa left Grupo Torras, the Spanish investment arm of the Kuwait Investment Office (KIO) that he had run for six years, and in December the company, citing losses of \$4m, went into receivership.

The year before casting loose from the KIO, which is suing him separately along with other former Grupo Torras executives, Mr de la Rosa began putting together his own financial empire by paying Pta8.5bn in a public share offer for 30 per cent of Consorcio Nacional de Leasing (CNL), a Barcelona leasing company with a widely distributed small shareholders equity base.

Later in 1991 he had CNL

buy 30 per cent of SA Tíbbado, a company he already controlled, sold CNL's headquarters and its leasing business, and transformed it into a holding company with the new name of Grand Tíbbado.

Last May Mr de la Rosa's chequered business career repeated itself. A month ahead of Grand Tíbbado's general meeting he resigned as chairman of the holding, saying he was willing to sell his stake in it for Pta1.

At the AGM Grand Tíbbado's directors announced that a revised audit had established losses for the company of nearly Pta1bn, in place of profits of Pta15m, and during a six-hour meeting, they endured sustained abuse from angry minority shareholders.

The chief cause of the shareholder hostility was their belief that Mr de la Rosa had used their money in Grand Tíbbado to buy and sell, at a profit to himself, properties that either belonged to him or to his associates and that he had decapitated the holding in the process.

What Banesto failed to do after the collapse of its Garriga Nogues subsidiary - and what KIO has so far failed to achieve after the fall of Grupo Torras - has been accomplished by lawyers representing some 500 of Grand Tíbbado's 7,000-odd remaining shareholders. Mr de la Rosa is being held in custody pending charges of falsifying public documents and mis-



Javier de la Rosa: has swum away from wreckage before

appropriation of funds, which carry penalties of six to 12 years. He was ordered yesterday to post bail of Pta1bn to cover his alleged liability for the losses of Grand Tíbbado. Mr Joaquin Aguirre, the civil

court judge who ordered Mr de la Rosa's arrest three days ago, said the financier must pay the money by Monday or face a possible embargo of his personal assets.

The courts will decide whether the charges against him stick and the investigating judge may still add new ones. But what has for the time being put Mr de la Rosa behind bars in his home town is an odd combination of high-level political infighting and of small-time investor hostility. "People kept telling Javier that what would land him in jail would not be the big KIO guns but the old widows who had their savings in CNL," says a Barcelona lawyer who monitored Mr de la Rosa's dealings. "Javier has tripped up because he refused to recognise that Grand Tíbbado had shareholders, that it had to be properly audited and that it was subject to the scrutiny of the stock exchange commission," says a former senior employee of the holding company.

The civil actions, like the ones brought by lawyers representing a group of Grand Tíbbado shareholders, do not in themselves propel the chairman of a failed company into custody. Mr de la Rosa was not, however, an ordinary chairman and neither is the present mood in Spain: there is a backlash against those who made speculative fortunes during the late 1980s.

Politics lie close to the surface of the Grand Tíbbado affair as Mr de la Rosa was close to the Catalan nationalist party that runs the Generalitat, the Catalan government. The Barcelona prosecutors

seized on allegations that Mr de la Rosa had temporarily used Pta1bn of a Pta10bn loan to Grand Tíbbado, that had been guaranteed by the Generalitat to develop a theme park south of Barcelona, for his own private business purposes.

The prosecutors - Mr Carlos Jimenez Villarejo and Mr José María Mena - are seen as being "political" prosecutors who are staunch opponents of the Catalan nationalist party. The two were involved in a long-running feud with the Generalitat during the 1980s when they attempted to pin the blame for the failure of a local banking group on Mr Jordi Pujol, its former chairman and the Generalitat's chief executive.

Catalan nationalists say the prosecution of Mr de la Rosa is linked to attempts to undermine Mr Pujol, who has frequently held the financier up to be an exemplary Catalan entrepreneur.

Mr de la Rosa defiantly told a radio interviewer, shortly before his arrest, that "every-one had better be prepared to take their share of responsibility".

The whole affair takes the form of an Italian-style corruption scandal as Mr de la Rosa is widely believed to have extensive dossiers on leading political figures in Spain and has allegedly tapped all his conversations. The discovery of a Panamanian passport, bearing Mr de la Rosa's photograph but with a false name, during a police search of one of his six offices in Barcelona underlined the dark side of the financier's approach to business.

## Bonn in call for continued support

By Bruce Clark

Germany will continue to need Nato and US support for its defence because of Russia's military strength and the uncertain prospects for democracy, the head of the German defence staff said yesterday.

In a speech to the Royal United Services Institute, Gen Klaus Naumann gave a strikingly downbeat view of the chances of stability or prosperity in the former Soviet Union. He described Russia as a country "taking a giant step from feudalism to democracy without ever having gone through the experience of enlightenment".

"Stability and democracy are linked with economic prosperity, and the Russian economy... is far away from recovery, and hence we should not be too optimistic in our assessment," the defence chief said.

He told the institute: "In the presumably long process of disintegration and reconstruction [in the former Soviet Union] we are likely to see further reversals... and more violence than we are now seeing in the almost forgotten wars of Caucasus."

Gen Naumann said that even if existing disarmament treaties were observed, Russia would still have more than 3,200 strategic nuclear warheads and an army of 1.5m men which Mr Yeltsin had promised to supply generously.

He was presenting to the institute his country's plans to develop a global rapid reaction capacity, including the ability to deploy one army division anywhere in the world within less than a month. He stressed that Germany did not expect to engage in such missions alone.

## Swedish forestry companies join forces to urge EU membership

By Hugh Carnegie in Stockholm

Sweden's top four forestry companies yesterday joined forces to warn that investment in Sweden would be threatened if the country voted against joining the European Union in a referendum on November 13.

In a joint newspaper article, the chief executives of Stora, Europe's biggest forestry company, SCA, the continent's third biggest, Modo and Assi-domän said EU membership was vital for Sweden's forestry industry, which has many production facilities as well as its main markets in the Union.

"We want to invest in Sweden, but... if Sweden stands outside the EU it will likely lead to many internationally orientated companies choosing to invest in production inside

the EU's borders," wrote the four, whose companies together employ 90,000 people in Sweden and abroad and have combined annual sales of SKr155bn (\$9.5bn).

The article was similar to a public warning against tax increases issued by four senior industrialists before last month's general election. But it is far from clear that such interventions by business leaders in political campaigns have the desired effect. The election warning was aimed chiefly at the Social Democratic party, but the party went on to win the election.

Many of the Social Democrat candidates and supporters claimed that the country's large industrial companies, most of which are making big profits this year, should not only pay more taxes but should

also bear directly some of the costs of Swedish membership of the EU.

However, the latest opinion polls this week suggested that the Yes campaign now leads in the EU debate. A poll yesterday in Dagens Nyheter, the newspaper which carried the article by the industrialists, showed support for Swedish membership running ahead of the opposition by 41 per cent to 34 per cent. The result showed a gain of five percentage points by the Yes camp, while the No side slipped three points from a previous poll in September.

Last Sunday, Finland became the first of the three Nordic EU applicants to vote on membership. Final official results published yesterday showed approval for joining by 66.9 per cent to 43.1 per cent, a

slightly narrower margin than initially reported by the authorities. Norway, where opinion remains strongly against membership, is to hold its referendum on November 28.

The Finnish parliament will hold its final vote on EU membership on November 8 or 9, it was announced yesterday. The government is keen to secure parliamentary approval, which must be by a two-thirds majority, before the Swedish referendum in case a rejection of membership by the Swedes causes a last-minute parliamentary revolt.

In Stockholm yesterday, Mr Ingvar Carlsson, the prime minister, named Ms Anita Gradin, Sweden's ambassador to Austria, as the country's first EU commissioner if the referendum approves membership.

## September's money supply growth continues deceleration

## German interest rate hopes hit

By Andrew Fisher in Frankfurt

Germany's money supply growth continued to decelerate in September, but not by enough to encourage hopes of further interest rate cuts by the Bundesbank over the next few weeks.

The closely watched M3 monetary indicator rose at an annualised rate of 7.7 per cent last month. Some economists had expected it to show a more marked slowdown, now that the distortions which caused it to grow more sharply earlier this year have been ironed out.

The latest M3 figure "will reduce market hopes for a further rate cut," said Mr Stephen King, economist at James Capel in London. "With relatively high levels of capacity utilisation and strong export

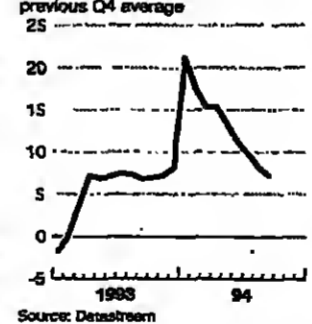
and investment growth, there is no real case for rates to be reduced again in the current cycle."

The Bundesbank last reduced rates in May by half a percentage point, bringing the discount rate down to 4.5 per cent and the Lombard rate to 6 per cent. This helped move money out of short-term deposits (included in M3) and into longer term funds.

Recently, Bundesbank directors have made clear they see no immediate case for further interest rate reductions, especially with the strong economic revival.

Mr Hans Tietmeyer, bank president, said this week the bank wanted to keep money market rates stable in the face of international volatility. The next Bundesbank council meet-

ing is on Thursday. The bank said the introduction of money market funds into Germany had had some impact on the slower M3 trend but this should not be exaggerated.



About DM5bn (£2bn) flowed into foreign-based money market funds in August and September, a further DM1.2bn went into German-registered funds.

Not all of this came from assets in the M3 definition, however. Some came from abroad and some was switched from bond holdings by investors nervous about long-term interest rate trends.

"M3 would have grown somewhat more strongly without money market funds, but the difference cannot be specified from information provided by the Bundesbank," said Mr Richard Reid, an economist with UBS, the Swiss bank.

He, too, thought M3 had not slowed enough to prompt a rate cut at the next two fortnightly council meetings.

## Greek central bank proves no place for a politician

Clash of personalities rather than policies caused the downfall of Greece's central bank governor, Mr Yannis Boutos, a former economy minister forced to resign last week in a dispute with the government over the future of the loss-making Bank of Crete.

The lesson for everyone is that you mustn't put a politician in charge of the Bank of Greece," said a senior economy ministry official. The new central bank governor, Mr Loukas Papademos, promoted from deputy governor, presents a model technocrat's image after 10 years at the central bank, mainly as an influential but low-profile economic adviser.

Mr Boutos came out of political retirement to take over as head of the central bank 11 months ago when the Panhellenic Socialist Movement (Pasok) returned to power. But his personal friendship with prime minister Andreas Papandreu failed to offset the mistrust his conservative background inspired among senior socialists.

Kerin Hope on why the bank's governor was asked to resign

At one level, Greece's central bank enjoys considerable autonomy, setting interest rates without interference from the government and managing monetary and foreign exchange policy on its own terms. However, the need to co-ordinate policy on financing Greece's huge public debt, amounting to more than 110 per cent of gross domestic product, and the development of its fast growing but still primitive capital market means the central bank must co-operate closely with the economy ministry.

"The governor shared our view on reducing inflation and gave us all the backing we needed on curbing monetary expansion," one government official said. "But he wasn't part of banking culture." Tact is also needed to maintain relations with the state-controlled National Bank of Greece, the country's largest commercial bank which has a market share of close to 50 per cent of deposits.

It has a heavy burden of non-performing loans. Senior managers at National Bank, which issued currency until the Bank of Greece was set up in the late 1920s, persist in seeing the central bank as a comparative upstart.

Mr Boutos, a blunt-spoken economist from Sparta, had little in common with Mr George Mirkos, governor of National Bank, a Pasok appointee whose family have been executives with the bank for more than a century.

He recently rejected Mr Mirkos's demand for a Dr10bn (\$40m) cash reward for National Bank from the central bank for helping defray the drachma during last May's currency crisis by raising short-term interest rates above 60 per cent and turning down new loan requests.

Mr Boutos also raised difficulties over another attempt by Mr Mirkos to boost his bank's balance sheet. The latter demanded that the central

bank should adjust exchange rates in National Bank's favour on foreign currency deposits made by Greeks working abroad, dating from the time when the central bank kept a tight grip on exchange controls.

The request was considered reasonable by central bank advisers, who are keen to sort out apparent irregularities with Greek commercial banks in preparation for meeting the Maastricht requirements for a single European currency.

However, concern was voiced over the inflationary effects of injecting some Dr30bn of liquidity into the banking system as a result of a one-off exchange rate adjustment.

It was Mr Boutos's decision last month to liquidate Arab Hellenic Bank, a struggling consortium bank set up in the 1970s by National Bank with Libyan and Kuwaiti partners, that particularly irked Mr Mirkos.

The state-owned Libyan Arab Bank had offered to cover a planned Dr3bn capital increase for Arab Hellenic Bank. This would have given the Libyans control of a Greece-based bank, enabling them to open branches in the EU under single market rules while remaining under Bank of Greece supervision.

The deal hung fire for more than a year before the US precipitated Mr Boutos's intervention by threatening to include Arab Hellenic Bank in its ban on financial transactions with Libyan nationals.

While Mr Boutos's abrasive style annoyed other bankers, his decision-making could not be faulted until it came to privatising the Bank of Crete, under central bank supervision as a \$200m (£126.5m) embezzlement scandal had been revealed there in 1988.

The socialist government is particularly sensitive about the Bank of Crete because its owner, Mr George Koskotas, now serving a prison sentence for fraud for his part in the

scandal, claimed he was blackmailed by Pasok officials into providing funds for the party. The allegations contributed to the socialists' fall from power in 1989.

Ignoring advice from Pasok, Mr Boutos sacked the commissioner of the bank, Mr Kostas Kalivianakis, on the grounds that he was obstructing the privatisation process. Moreover, Bank of Crete's losses had soared from Dr1.2bn in 1993 to Dr3.2bn for the first half of this year.

A government official said: "Because of its past, decisions on the Bank of Crete disposal have to be reached by consensus and carried out transparently."

Mr Boutos's mistake was to appoint as the new commissioner, without consultation, Mr Michalis Sortikos, a private-sector financier reportedly involved in an attempted takeover of a private Greek bank earlier this month. This raised questions over a conflict of interest. When news of the decision reached the premier's office, Mr Boutos was asked to resign.

### THE FINANCIAL TIMES

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## Japan calls for intervention as dollar slips

By William Dawkins in Tokyo

Japanese ministers and businessmen yesterday voiced anxiety over the dollar's latest decline, to a post-war low against the yen. Mr Masayoshi Takemura, the finance minister, called for joint intervention by members of the Group of Seven to support the dollar.

The US currency, briefly touched a record low of ¥96.55 in Tokyo, before closing at ¥96.68, its lowest ever closing price since 1949. Share prices reacted calmly with the Nikkei down only 92.82 points to 19,899.08 and government bonds strengthened.

Business groups repeated earlier worries that the dollar's fall will inflict another blow on the yen value of export sales just as they were beginning to see signs of an export-driven recovery.

The current exchange rate is excessive and will hit business confidence, said Mr Masaru Hayami, president of the Keizai Doyukai executives' association. Small and medium-sized businesses, which have not yet benefited from the economic recovery, will be especially hard hit, warned Mr Masafumi Onishi, chairman of the Osaka chamber of commerce.

The Bank of Japan, which intervened heavily in Tokyo trading, warned in its latest quarterly report that the yen's rise would intensify deflationary pressures, but said that the economy would stay on a recovery track.

The currency market upheavals would ensure that the pace of economic recovery would be moderate, said the report. Demand for Japanese exports, companies' progress in running down stocks of unsold goods and materials and the impact of income tax cuts were the main factors supporting growth, said the bank. However, bank lending was stagnating in spite of moderate growth in the money supply.

Among the main constraints on growth, the report cited the yen's rise, Asian competition and the decline in Japanese prices, plus companies' continued need to reduce debts.

Mr Kagehide Kaku, director of the bank's research and statistics department, warned that the yen's rise, while less strong than last year, would limit Japanese companies' domestic investment plans. It adds to the pressure on manufacturers to shift production to cheaper sites in neighbouring Asian countries.

Japan's finance minister yesterday confirmed that he is to review the government's method of pricing shares in companies to be privatised.

Mr Masayoshi Takemura's announcement comes in response to the unpopularity of the latest privatisation issue, Japan Tobacco, a cigarette making monopoly. "We must seriously look into the situation to see if there is any problem about the way we have taken in the past," he said.

The government has been left with 280,000 unsold shares of the 666,666 it wanted to sell, a shortfall theoretically worth ¥387.6bn (¥1.5bn) at the ¥1,438m per share offer price.

Nearly 70 per cent of the small investors who were allotted the right to buy shares forfeited their allocations because they felt they were overpriced.

This has brought to a head the growing criticism from Japanese as well as foreign

securities houses over the finance ministry's unique method of setting prices for public share issues.

The ministry chooses the mid-price achieved in a pre-offer auction of one-third of the shares to be issued. Typically, institutional investors and rich individuals tender for shares in this pre-offer auction, so that the mid-price risks being higher than the valuation the remaining two-thirds of investors would place on the company.

The system was introduced at the end of the 1980s to prevent frauds, in which companies about to be listed would hand out cheap shares to powerful friends.

One alternative to the new rules, proposed by US and European business lobbies in Japan, is to adopt the "book-building" system used for most international issues, in which financial advisers use their discretion to choose a price after sounding out the main potential investors.

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## Brazilians wake up from a Real dream

The election over, the consumer boom has been brought to a sudden halt, writes Angus Foster

Millions of Brazilian consumers this week woke up from a dream they hoped would never end. After several months of falling prices and easy credit, the government announced a package of measures to clamp down on consumer spending before inflation reignited.

Since the July launch of a new currency, the Real, Brazilians have stocked up on goods ranging from cars to kettles. The Real reduced monthly inflation from 50 per cent to less than 2 per cent. Consumers, who found their wages were worth more, went on a buying spree.

Sales of TV sets in August were 75 per cent higher than in the same month last year. Maplin, a large department store chain, saw sales rise 20 per cent in September and the

beginning of October. Poorer consumers found they could suddenly afford canned soft drinks, which fueled a surge in demand that has left supermarket shelves empty as Brazil has run out of aluminium cans.

The government was happy to let the spree go on because it helped the election chances of its candidate, Mr Fernando Henrique Cardoso, who planned the Real's launch. Once elected, the government was free to apply the brakes and cool the overheating economy.

The package of measures announced this week mainly involved reducing the period of credit for consumers. Families hoping to buy an oven or washing machine could spread the payments over 12 months. Now they have only three months to find the money.

By yesterday morning, the credit squeeze had started to have its desired effect. Mr Abraham da Souza, a salesman at a big domestic appliance retailer in São Paulo, said his sales had fallen sharply. "People are still coming to ask for prices but when they hear about the new rules and the shorter credit periods, they are going away without buying anything," he said.

The government's other main target were the *consorcios*, or informal credit organisations, which are common in Brazil and other developing countries.

This is how the *consorcios* work: A family which wants to buy a car, but is not rich enough to get bank financing, goes to a *consorcio* organiser. The *consorcio* needs 100 members who agree to pay 50

monthly instalments each. Every month two members get their car, one by pre-arranged rota, the other by drawing names from a hat. At the end of the period, all the members have a car, and the *consorcio* organiser is left with a fat profit.

The government has now announced a ban on *consorcios* buying household goods and imposed a reduction from 50 months to 12 months for *consorcios* buying cars. The results are likely to be dramatic.

According to the Association of Brazilian *Consorcio* Companies - which may exaggerate the figures a little to lift its political clout - 8.9m Brazilian families belong to *consorcios*. Last year the industry recorded sales of \$5.7bn. Before the new government measures,

it had expected sales to reach \$7bn this year.

Mr Luiz Favean, who works for one of Brazil's biggest *consorcio* organisers, Remaza, says sales of the cheapest cars, which cost about \$9,000, will be severely affected by the government move. "With a 50-month payment period, poorer families earning \$700 to \$800 a month were able to afford a car, but now they are not," he said.

In the Extra supermarket near São Paulo's Paulista Avenue, many shoppers were angered by the new measures. One woman, who had been mulling over buying a fridge using the store's *consorcio* organiser, reacted with frustration to the resignation when told that the government had banned new *consorcios*.

from buying domestic goods. "Our governments always stop workers from improving our lives," she said. Asked what she would do next, she said: "Waste the money on the lottery instead."

This is a popular complaint, and a dangerous one for the incoming president. In recent years, each time a government has managed briefly to reduce inflation, it has triggered a wave of consumer spending which has then led to a clamp-down.

Brazil has the one of the world's biggest gaps between the haves and have-nots and poorer people may feel they have been tricked once again. The dream period which coincided with Mr Cardoso's election campaign is over. Brazil's consumers now face the hang-over.

## IAEA grapples with North Korea accord

By Peter Montagnon, Asia Editor

The board of the International Atomic Energy Agency (IAEA) is to meet in Vienna on Tuesday for a first informal attempt to decide whether and how the US-North Korean nuclear agreement can be handled within the framework of the Nuclear Non-Proliferation Treaty.

North Korea plans to remain within the treaty, from which it had previously threatened to withdraw. But there will be a

delay of several years before the agency can have full access to its nuclear sites and before it can examine spent fuel to verify how much plutonium the country possesses. This would put it in non-compliance with the standard treaty agreement, the IAEA said yesterday.

The agency's belief that North Korea had not disclosed the full size of its plutonium stockpile and its inability to gain access to two suspected processing sites sparked the row which led to yesterday's agreement between Pyongyang

and Washington. Neither problem has been resolved in the short term.

IAEA members are likely eventually to endorse the deal, but this will require complex legal drafting to ensure the precedent set by North Korea's non-compliance is insulated from the rest of the non-proliferation treaty and cannot be repeated.

"We're not oblivious to the wider importance of bringing North Korea into the world community," an IAEA spokesman said.

"We're not being doctrinaire, but the fact of life is that our organisation is the guardian of the integrity of the system of inspection."

Although the IAEA regards the North Korean case as "a troublesome precedent", its director general, Mr Hans Blix, also wants to make the agreement a success as it does at least involve a North Korean commitment to halt its present nuclear programme.

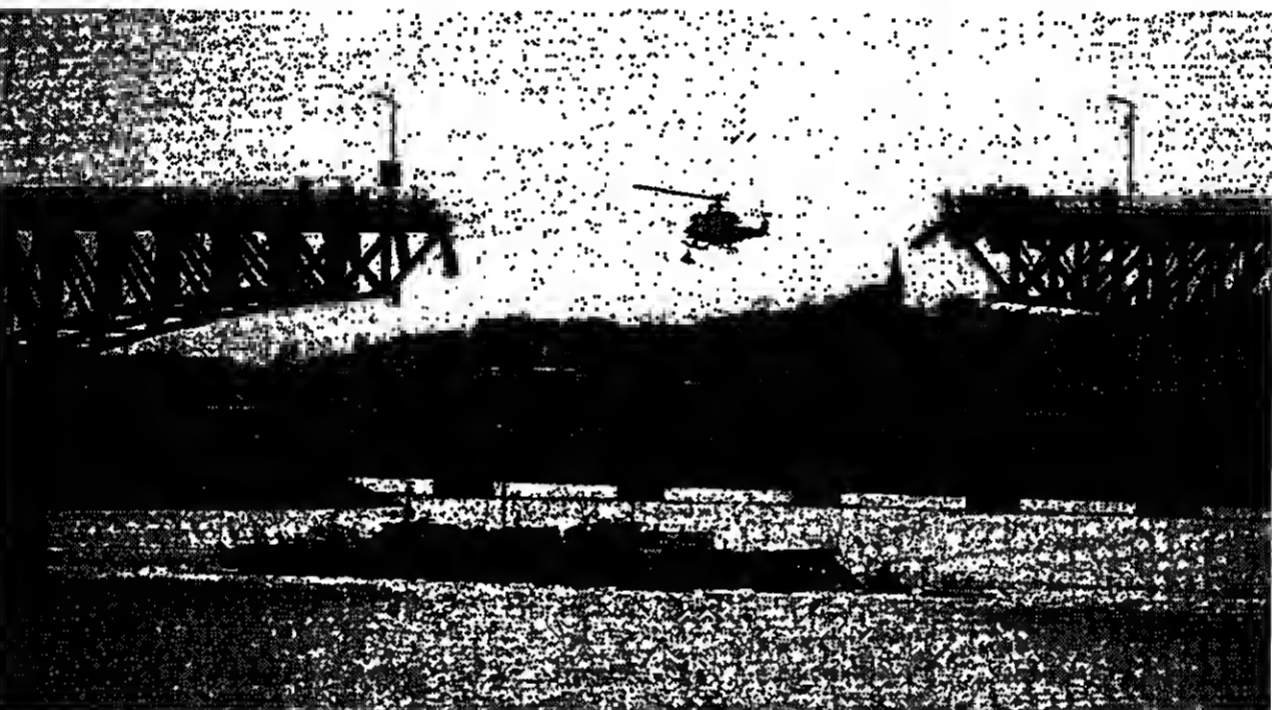
Some European countries are likely to have reservations at Tuesday's meeting about

appearing to reward with finance and new technology a country that has flouted the treaty's rules.

Strict standards have been set in the past, for example, in the early 1980s when Germany stopped construction of a nuclear reactor that Iran had already paid for.

The main voices in the non-proliferation treaty remain the US, UK and Russia. Once they have formed a consensus, other signatories, numbering some 180, would probably fall in line.

## MAYOR QUILTS AFTER 32 DIE IN BRIDGE COLLAPSE



The mayor of Seoul resigned yesterday after a 48-metre stretch of a motorway bridge over the Han River collapsed during the morning rush hour, killing at least 32 people, writes John Burton in Seoul.

City authorities were blamed for poor maintenance of the Songju bridge (pictured left), one of the most heavily used in Seoul.

Dong-ab Construction, Korea's third largest engineering company which built the bridge in 1979, said the bridge may have deteriorated because traffic use exceeded its design specifications. It said its legal responsibility to repair any defects had lapsed in 1984.

Several other bridges in Korea have collapsed in recent years due to sub-standard work. The government may soon allow construction supervision by foreign companies to prevent future accidents. Authorities are expected to increase safety inspections of public infrastructures.

renewed talk of tough security measures against Hamas. While an opinion poll showed yesterday that 80 per cent of Israelis favour a permanent closure and stringent security measures against Hamas, some Israelis believe the government must adopt a political rather than military strategy.

Mr Alon Ben-Meir, professor of international relations at New York University, criticised Israel yesterday for trying to exclude Hamas from Palestinian elections. In an article in the Jerusalem Post, Prof Ben-Meir said Hamas represented Palestinians with genuine political grievances which needed a political solution.

spokesman, says his group was not consulted sufficiently, parliament did not properly debate the project, and Bank and government authorities have been slow to provide project documents. He added that even if parliament was to approve the project following an open debate, the group would still oppose the scheme in favour of its alternative plan for smaller dams.

Mr Sivakoti added that the project was 150 per cent more expensive than comparable power schemes elsewhere and would lead to substantially higher tariffs.

Mr Wood, in response, said that numerous talks had been held in Nepal and abroad. He stressed that the Bank was supporting what was a Nepalese government proposal, not a Bank proposal.

He said that the NGOs' alternative power strategy would produce less electricity and would not be significantly cheaper. There had been much debate, both in parliament and in public, and the issue had been well reported in the local

## Wonder lightbulb saves energy

By George Graham in Washington

US energy department officials are beaming over a new sulphur light bulb they have helped develop which could prove "a major technological breakthrough in lighting".

The new bulb, invented by Fusion Lighting, a Maryland company, and developed under a government contract, is being tested at this energy department's Washington headquarters, and could be commercially available next year.

It is suitable for lighting large areas, both indoors and out, can save large amounts of energy, and delivers more and better quality light.

The light works by heating a small quantity of sulphur inside a quartz sphere smaller than a golf ball with the same sort of energy produced by a microwave oven. This produces as much light as 250 100-watt household bulbs.

In its test the energy department has replaced 240 mercury lamps at its entrance with just two of the new sulphur bulbs, shining into opposite ends of a 240-foot long "light pipe". The light is reflected down the tube, escaping through holes at regular intervals to produce four times as much illumination while cutting energy use by two-thirds.

Another test at the National Air and Space Museum shows substantial, though less dramatic cost savings. It also produces much less ultraviolet light or heat, both of which damage the museum's exhibits, than conventional lamps.

Because the sulphur bulb has no electrodes, its developers expect it to have a longer life than conventional lighting, although other experts want to see this confirmed in the tests.

"Light output does not diminish over time and the life of the sulphur bulb is potentially limitless," the energy department said.

The sulphur bulb also produces a white light containing all the colours of the rainbow, closely simulating sunlight, unlike the harsh colours produced by other electrode-less lamps generally used for street lighting, such as sodium vapour or mercury lamps. The absence of highly toxic mercury also makes a spent bulb much easier to dispose of.

media. "Even the Communist party is not opposed to the scheme," Mr Wood said.

There had been some disagreement within the project evaluation team and the original road design had been changed.

He emphasised that the country was now in the grip of regular power cuts. The capacity of Arun Dam, to be completed by 2001, would establish a healthy domestic power source, nearly doubling capacity from the current 941MW.

"This will make a hell of an impact on tourism, on service industries, light manufacturing such as carpet-making and on agriculture... We want to see more done with social infrastructure. We say electricity will help."

The opponents have made it clear they will work to delay the scheme in hopes of making it uneconomical. The Bank says that a one-year delay has already added \$25m to the cost of the project.

Frank Gray is editor of *Power in Asia*, a Financial Times energy newsletter.

### INTERNATIONAL NEWS DIGEST

## Keys takes up business role

Genor, the South African mining house, yesterday announced that Mr Derek Keys, former South African finance minister and a former chairman of Genor, had accepted the chairman-ship of Billiton, the international resources company purchased by Genor from Shell in July for \$1.3bn (280m). Mr Keys was regarded as one of Genor's most successful chief executives and the announcement, at Genor's annual general meeting in Johannesburg, won approval from shareholders. It will help ally analysts' concerns about the difficulties of consolidating Billiton's diverse operations into a single company. It also ends speculation on Mr Keys' future, after he stepped down as finance minister last month following two years in office. Mr Keys, who will be based in London, said he was very optimistic about Billiton's prospects. Mark Sumner, Johannesburg

## UK promotes finance in Beirut

A delegation from the City of London begins a two-day visit to Beirut on Monday to promote British financial services. The visit is organised by British Invisibles, a group promoting UK trade, which last week ran a similar trip to Russia coinciding with the Queen's visit. The delegation is headed by Mr John Manser, chairman of Robert Fleming - soon to open an office in Beirut - and includes representatives from the London Stock Exchange, Schroeder Assely, Coopers & Lybrand, Samuel Montagu, Morgan Grenfell, Faring International Finance and Credit Lyonnais Rouse. Mr George Assely, a Lebanese-born director of Schroeder Assely, says the Lebanese government could be aiming to raise up to \$300m on international markets over the next year. Jimmy Burns, London

## Moslem sect leader recants

Al Arqam, the Moslem sect banned by the Malaysian government, was yesterday formulating its response to a TV appearance by its leader, Mr Ashaari Mohamad, in which he appeared to go back on his beliefs. Mr Ashaari, answering questions from a panel of Malaysian Islamic scholars, admitted deviant beliefs and promised to try to change the minds of followers whom he had misled. Al Arqam, which says it has 100,000 followers in Malaysia and more in the region, was banned in August for spreading what the government called deviant Islamic teachings. About 55 per cent of Malaysia's population are Moslems. Mr Ashaari and six other Al Arqam members were arrested last month under Malaysia's Internal Security Act. Kieran Cooke, Kuala Lumpur

## Ecuador minister impeached

Ecuador's parliament has impeached energy minister Francisco Acosta, a key minister in the cabinet of President Sixto Durán Ballén. With 58 out of 72 parliamentarians in favour, Acosta was voted out of office on charges of negligence, mismanagement and illegal conduct. The opposition's accusations centred on the proposed construction of a \$600m oil pipeline. Raymond Collett, Ecuador

## Israel shells guerrillas in Lebanon

By Julian Ozanne in Jerusalem

Israel shelled suspected Islamic guerrilla positions in south Lebanon yesterday after a wave of rocket attacks struck northern Israel.

Mr Uri Lubrani, Israel's co-ordinator for Lebanon, said there was no evidence to suggest a co-ordinated military operation between Hamas, the group responsible for Wednesday's bus bombing in Tel Aviv, and Lebanon's Iranian-backed Hizbollah or Party of God, which sent five waves of Soviet-made missiles into Israel.

The missile attacks forced residents of northern areas into bomb shelters. There were no reports of casualties.

Mr Lubrani said there was a union of purpose between the two groups and Tehran to strike terror in the heart of Israel and derail efforts at Middle East peace. "They are a tumour - a malignant tumour - which pollutes Islam and they are dedicated to the destruction of the peace process," he said.

Amid escalating violence between Israel and its Islamic opponents inside and outside the Holy Land, a senior Iranian spiritual leader said yesterday the Hamas bus bomb which killed 21 people in Tel Aviv showed that peace pacts between Israel and Arab leaders could not solve the Palestinian problem.

Ayatollah Ahmad Jannati said peace agreements had no impact on the continuing struggle between Israel and "the Moslem people" and he attacked the Palestine Liberation Organisation for arresting Hamas activists. The PLO, he said, "has turned into an Israeli tool to suppress the Moslems".

In Israel signs of the deep social divisions left after this week's bus attack were apparent as right-wing Israelis shouting "Death to Arabs" clashed with peace supporters holding a vigil at the site of the attack in the commercial centre of Tel Aviv.

Police had to separate the two groups after several peace demonstrators were beaten up. Despite the violence Israel reaffirmed yesterday it would continue peace talks with the PLO.

Mr Shimon Peres, the foreign minister, is to meet PLO representatives in Cairo tomorrow. Officials said the two sides would discuss recent attacks by Hamas guerrillas and ways to ensure progress in stalled talks over the long delayed transfer of power from Israeli to Palestinian hands in the occupied West Bank.

Discussions will also centre on plans to hold Palestinian elections.

The talks will be marred by Israel's closure of the Gaza Strip and West Bank and its

recent talk of tough security measures against Hamas.

While an opinion poll showed yesterday that 80 per cent of Israelis favour a permanent closure and stringent security measures against Hamas, some Israelis believe the government must adopt a political rather than military strategy.

Mr Alon Ben-Meir, professor of international relations at New York University, criticised Israel yesterday for trying to exclude Hamas from Palestinian elections. In an article in the Jerusalem Post, Prof Ben-Meir said Hamas represented Palestinians with genuine political grievances which needed a political solution.

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## More heat than light in Nepal power wrangle

World Bank is worried about effects of a campaign against a hydroelectric scheme, writes Frank Gray

The World Bank's ability to continue backing large-scale power projects in the developing world is facing a crucial test as a result of environmentalists' opposition to a proposed Arun III hydroelectric scheme for Nepal.

The government scheme is being strenuously opposed by such non-governmental organisations (NGOs) as the US-based Environmental Defence Fund and the International Rivers Network, as well as the Arun Concerned Group of Nepal.

The IRN and the ACG have announced plans to file a motion before the Bank's newly created three-member inspection panel. The motion will call for the project to be shelved on the basis that it is "in violation of Bank policies and procedures".

The motion will be the first to be handled by the panel, which was set up in the wake of controversy surrounding the Bank's backing for the Narada Dam multi-purpose hydro project in India.

Under intense criticism by such groups as the IRN and



Britain's Overseas Development Administration, the Bank last year took the unprecedented step of suspending its support for the 1450MW dam and irrigation complex in north-west India, which involved the resettlement of at least 100,000 people. This meant the suspension of the remaining \$175m (£107m) of a total of \$450m in Bank commitments to the scheme.

The criticism of the Indian project centred on the way the

resettlement was being handled, including claims of cruelty to those being resettled, inadequate compensation, lack of Indian government compliance with Bank project guidelines and lack of Bank enforcement of the guidelines.

Mr Joseph Wood, the Bank's vice-president for south Asia, in a recent interview said the Nepal and Indian projects could not be compared.

Arun III calls for initial construction of a 201MW run-of-river hydroelectric scheme, which will involve the displacement of only 155 local families and will not require construction of a reservoir.

The fall-out from Narada and the criticism of Arun are causing worry within the Bank about its future involvement in large-scale energy projects.

Long delays to Arun might prove fatal, senior Bank officials admitted. The Bank had already delayed financing approval several times as a result of outside pressure, and now was hoping to get its board approval by November 3, by which time all financing

from partner agencies should have been arranged.

Under the proposal, the Bank would provide a 30-year, \$140.7m loan to the Nepal Electricity Authority. A further \$34.3m is also available under an existing Bank facility. A total of \$473m would be arranged through various bilateral agencies from France, Sweden, Finland, Japan as well as the Asian Development Bank. The Nepalese would contribute \$443m, bringing the total cost to \$1,000m.

Japan's contribution to the fund is crucial for the project but it is moving cautiously because of its embarrassment over its involvement in Narada and is therefore conducting an independent assessment of the scheme.

The protest groups want to delay the project beyond November 13, the date of Nepalese national elections, and hope to see it supplanted by a more environmentally compatible complex of smaller dam schemes around the country, some as small as 10MW.

Mr Gopal Sivakoti, ACG

spokesman, says his group was not consulted sufficiently, parliament did not properly debate the project, and Bank and government authorities have been slow to provide project documents. He added that even if parliament was to approve the project following an open debate, the group would still oppose the scheme in favour of its alternative plan for smaller dams.

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Frank Gray is editor of *Power in Asia*, a Financial Times energy newsletter.

## NEWS: UK

## Blair to pledge overhaul of pensions and benefits system

By Philip Stephens, Political Editor

Mr Tony Blair will next week launch a determined attempt to shake off Labour's image as the party of high welfare spending by embracing plans for a radical overhaul of the state pension system and significant changes in social security benefits.

A proposed shake-up of state pensions would allow the Labour leader to drop previous spending pledges while sticking to its commitment to raise substantially the income of the poorest pensioners.

Mr Blair plans to endorse the main principles of a report prepared by the Independent Commission on Social Justice which calls for a new drive to tilt the benefit system towards work incentives and for the integration of the tax and benefit systems for pensioners.

The report, commissioned by the late John Smith, will be published on Monday after two years of study by a group led by Sir Gordon Borrie. It will coincide with the publication by the government of its plans to channel more people back into the jobs market through the replacement of Unemployment Benefit with a Job Seekers' Allowance. The new benefit will be paid for only six months rather than 12 months and will carry a much tougher obligation on the claimant to seek work.

At a conference to launch the report Mr Blair will indicate that the details must be subject to a wide-ranging debate within the party. But he will embrace the central conclusion that a Labour government should concentrate resources on moving people from welfare dependency into work.

The planned pensions change, involving the establishment of a "minimum retirement income" for those entirely reliant on the state, would allow the party to drop its past commitment to re-establish a link between state pensions and earnings. That pledge - made at the last three elections - would involve several billions in additional public spending.

By focusing on providing a "top-up" for the poorest 2m pensioners through the guaranteed minimum income, Mr Blair could justify downgrading the role of the state pension in meeting the party's social

ambitions. The proposed switch, however, will attract Conservative claims that all pensioners will be means-tested because everyone would be obliged to complete a tax/benefit form on retirement.

The commission's recommendations on promoting work rather than welfare focus on changes to the unemployment, income support, and family-credit benefits to smooth out the poverty traps which at present discourage claimants from re-entering the employment market.

Among the specific proposals is a scheme under which benefit payments would include a "guaranteed" element which the unemployed would be allowed to keep when they took part-time or low-paid jobs. Another suggestion would be to allow the jobless to keep all of their unemployment benefits for a limited period after returning to the labour market.

The report is expected to recommend that a future Labour government retain the principle of universal benefit for the state pension and child benefit. But it leaves open the option of extending the tax net to cover the latter.

## Rebels set to scupper Royal Mail sale

Tory opponents of the privatisation of the Royal Mail yesterday stopped up their campaign to force the government to abandon the proposed sale by tabling a formal Commons motion demanding it be kept in the public sector, Philip Stephens writes.

With a divided cabinet expected to decide next week whether to press ahead with the sale, eight Conservative MPs signed an early day motion voicing concern that privatisation would lead to closures of rural post offices.

The opposition of the eight MPs would be sufficient to overturn any legislation in the Commons where the government has an overall majority of just 14.

Tory party managers have warned Mr John Major that several other MPs are also threatening to vote down the privatisation plan in favour of moves to keep Royal Mail and Post Office Counties intact in the public sector. The rebels believe the government could meet mounting international competition by giving the Post Office greater commercial freedom.

Mr Richard Ryder, the chief whip, and Mr Tony Newton, the leader of the House, are both understood to have told the prime minister they could not guarantee sufficient votes.

But Mr Michael Heseltine, trade and industry secretary, and Mr Kenneth Clarke, the chancellor, are insisting that the government should face down the rebels. The two ministers, backed by several cabinet colleagues, believe that enough opponents can be won over to guarantee passage of the legislation.

Cabinet supporters of the sale are arguing also that an embarrassing U-turn over the issue would allow the opposition to brand Mr Major's government as a "weak" administration unable to win its business in parliament. They believe some Ulster unionist MPs, who are formally opposed to the sell-off, might decide to abstain on any key votes.

## Newspaper cuts 'not predatory'

Sir Bryan Carsberg, director-general of Fair Trading, yesterday rejected allegations that price cuts at The Times and The Daily Telegraph amounted to predatory behaviour.

Sir Bryan said an inquiry had not established a case for formal action under competition legislation. The cuts have had wide-ranging effects on other newspapers and did not appear to be targeted at a particular title, the OFT decided.

The latest circulation figures show that average sales of The Times between April and September were 549,770, a rise of 46.4 per cent on the same period last year. Apart from a small seasonal dip in August the paper's sales rose in each of the past six months and totalled 607,133 in September.

The 30p Daily Telegraph appears to be stable at 1,091m, while The Independent's average circulation for the six-month period was 276,259, a drop of 17.7 per cent on the same time last year. Since it cut its cover price to 30p sales have risen by about 30,000. In August sales were 289,403 while last month they were 290,081.

## Staff at Yorkshire TV agree terms

Employees of Yorkshire Television who had resisted new cost-cutting terms and conditions agreed to them yesterday. The terms include an end to premium overtime rates and flexible rostering.

## Jury out for night

The jury in the Brent Walker fraud trial spent a fifth night in an hotel last night after failing to reach verdicts yesterday. It will resume its deliberations today.

## Gross domestic product ahead by just 0.7% as industrial production slows

## Growth slips in third quarter

By Philip Coggan, Economics Correspondent

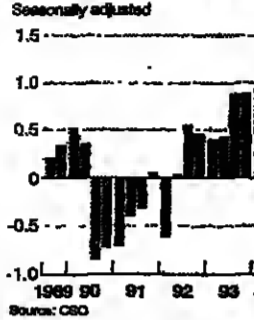
A slowdown in industrial production caused the pace of economic growth to slip in the third quarter of 1994, according to a preliminary estimate released by the Central Statistical Office yesterday.

Gross domestic product grew a seasonally adjusted 0.7 per cent in the third quarter, down from a growth rate of 1.1 per cent in the previous three months. On an annual basis, GDP was 3.8 per cent higher than in the third quarter of last year 1993. The annual growth rate in the second quarter was 3.8 per cent.

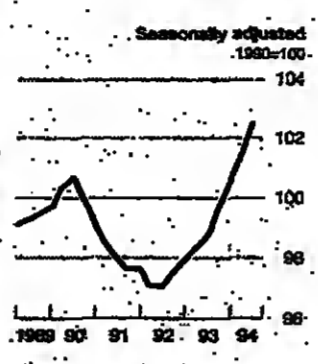
The decline in the pace of third-quarter growth had been widely expected after figures were published earlier this month showing a fall in manu-

## GDP: rise and fall

Quarter on quarter % change Seasonally adjusted



Source: CSO



Source: CSO

facturing output in August. The decline may reduce the enthusiasm of the Bank of England for further increases in interest rates - the pace of GDP growth in the second

quarter was one of the factors cited as being behind last month's rise in base rates from 5.25 to 5.75 per cent.

Mr Kevin Darlington, UK economist at stockbrokers

Hoare Govett, said: "In our view, the third-quarter slowdown is not a downblip in a still-fast trend but the first sign that activity is set to decelerate over the next year."

According to the Central Statistical Office, the service sector grew at a quarter-on-quarter rate of 0.8 per cent, slightly higher than its growth rate in the second quarter. The strongest service sector was transport and communications, with air transport and telecommunications being particularly robust.

However, the rate of growth in the production industries has shown signs of slowing. The office said that over the three months to August production had risen at a quarterly rate of 1 per cent, compared with a rate of 2 per cent

in the second quarter. There were signs that growth had slowed even further in September. It was likely that, between the second and third quarters, production grew by less than 0.7 per cent.

The Central Statistical Office said the slowdown in industrial production was partly due to a weak engineering sector and partly reflected the effects of the Milford Haven fire and other oil-refining problems.

Rising North Sea oil and gas production have been an important part of the recovery. However, even if oil and gas are excluded, GDP grew 0.7 per cent in the third quarter and was 3.2 per cent higher than in the same period a year ago. Overall GDP is now 2.6 per cent above its pre-recession peak in 1990, or 1.8 per cent if oil and gas are excluded.

## Fowler urges probe over MPs' interests

By David Owen

A former Tory cabinet minister last night called for a wide-ranging independent inquiry into MPs' outside interests as an influential Commons committee prepared to consider the alleged non-registration of a 1987 visit by Mr Neil Hamilton, corporate affairs minister, to a luxury Paris hotel.

Sir Norman Fowler, who stepped down earlier this year as Tory party chairman, said the inquiry should be modelled on the Cadbury committee set up to consider questions of corporate governance.

Sir Norman told his constituency association that it had been "a bad week for parliament" and action was needed to assure the public that MPs' conduct was governed by "proper and sensible rules".

Sir Norman said: "We do not need a committee of inquiry to tell us that putting down questions for payment is wrong; that is self-evidently the case."

"But it is quite clear that... some politicians do not intend to let the matter rest there. We should not allow the agenda to be set by political muckrakers. We should [recognise] that there is legitimate public concern."

Sir Norman's remarks came as Mr Alex Carlile, Liberal Democrat MP for Montgomery, made a formal complaint, demanding a Commons investigation into Mr Hamilton's hotel visit, alleged to have been paid for by Mr Mohamed Fayed, owner of the hotel and Harrods department store.

In a letter to Sir Geoffrey Johnson Smith, Tory chairman of the select committee on members' interests, Mr Carlile referred to reports in The

Guardian newspaper about the visit by Mr Hamilton and his wife, Mr Carlile said the "non-registration of that interest has... never been investigated or ruled upon by your committee", despite "reports to the contrary".

Downing Street said on Thursday that Mr Hamilton's visit had been looked at by the committee. Tory party managers had been told by the chairman that it was taking no action. But senior Whitehall officials have acknowledged that the committee had not produced a formal report.

Mr Terry Lewis, Labour committee member, said yesterday that Bob Cryer, the late Labour MP, had raised Mr Hamilton's hotel bill in committee but his recollection was that there was no investigation.

Mr Carlile's letter will be discussed by the committee at its next meeting - a date for which has yet to be set.

The steady upward pressures on pay are by no means confined to the car industry. A number of settlements over recent weeks suggest rises are moving above 3 per cent as companies adjust their offers under the threat of industrial conflict. These include:

- A 3.5 per cent plus £325 lump sum deal from October 1 for manual workers at British Aerospace's plant at Woodford in Cheshire after a 24-hour stoppage by operators.
- Anglesey Aluminium has increased pay by 4.7 per cent at its Holyhead plant after an earlier offer was turned down by the workforce.
- Honeywell Controls Systems in Motherwell has reached a two-year deal with 4 per cent from this month plus 1.5 per cent next March and the next deal to be from March 1 1996.
- Employees at Westland Helicopters have received 3.25 per cent pay increases after a number of groups staged one and two-day strikes.
- Britannia Airways improved its pay offer for 1,400 cabin staff after a strike ballot vote with a guarantee no rises would be less than 3 per cent.

Mr Davies sees this as a "creeping" rise in the wages trend above the inflation rate and level of productivity improvements.

## Trade gap with non-EU countries rises to £349m

By Motoko Rich

Exports to countries outside the European Union fell slightly last month after a record in August, although underlying trends indicated a continuing reduction in the trade deficit.

A fall in exports of aircraft contributed to an overall rise in the non-EU trade deficit to a preliminary £349m in September from a revised £289m in August, as export values fell 1 per cent on the month, the Central Statistical Office said yesterday.

But excluding oil and erratic items such as aircraft as well as precious stones, ships and silver, the trade deficit eased to

£364m last month from an upwardly revised £389m in August. Export volumes rose 0.5 per cent and import volumes fell 0.5 per cent.

In the three months to September the deficit of £1,020m was the lowest since the first quarter of 1988. Export volumes were at record highs in the third quarter, up 3.5 per cent on the previous three months while imports were up 0.5 per cent.

The growth in export volumes during the quarter covered all industrial categories except fuels. In finished manufactures, the 1.5 per cent quarterly gain was entirely due to an oil-rig accommodation platform sold to Norway. A one-off

sale of rapeseed to Japan boosted the basic-materials category by 9 per cent in the three months to September compared with the previous quarter.

However, sluggish demand hit imports of consumer goods, particularly cars.

Economists highlighted a fall in import prices during the third quarter and said such price cuts could threaten the improvement in the trade deficit.

In the three months to September import prices excluding oil fell 0.5 per cent compared with the previous three months.

Mr Jonathan Loyne, UK economist at Midland Global

## VALUE OF TRADE WITH NON-EU COUNTRIES

Balance of payments basis, seasonally adjusted (£m)

	Exports	Imports	Balance	Exports	Imports	Balance
1992	48,774	88,430	-39,656	40,887	48,124	-7,237
1993	57,469	86,724	-29,255	50,036	57,415	-7,379
1994 Q1	52,218	76,806	-24,588	43,583	44,979	-1,396
1994 Q2	52,323	77,436	-25,113	43,263	45,271	-2,008
Q3	55,695	77,388	-21,693	43,571	45,176	-1,605
Q4	55,946	77,214	-21,268	43,965	45,128	-1,163
1994	18,250	47,701	-29,451	4,511	5,078	-567
1995	18,128	57,288	-39,160	4,494	5,053	-559
1996	18,298	57,687	-39,389	4,566	5,046	-480
1997	18,416	57,795	-39,379	4,595	5,060	-465
1998	18,528	57,708	-39,180	4,658	5,047	-389
1999	18,657	57,705	-39,048	4,712	5,076	-364

Source: Central Statistical Office, London. Figures are preliminary and subject to revision.

Markets, said: "Foreign exporters to the UK are learning the same lesson that UK retailers have learned - if they want to protect volumes they have to decrease prices."

Analysts remarked on a fall in exports to North America, one of the most important markets for British products. In the three months to September, exports to North America

fell 4.5 per cent compared with the previous three months after rising 2.5 per cent in the three months to August. But the CSO said this was mainly due to very high oil exports to North America in June.

Others said the growth in exports to developing economies was more significant.

## Jaguar workers send a restive signal

Robert Taylor on why observers fear the car industry may be courting wage-driven inflation

Jaguar car workers' sudden rejection yesterday of a two-year pay deal may be partly due to the shop floor's alleged discontent over the introduction of compulsory overtime work to meet rising orders.

But many observers also believe it reflects the first signs of a restive mood across parts of the British workplace as the economic recovery gathers pace and workers start to improve their bargaining strength.

Earlier last week Mr Howard Davies, the director-general of the Confederation of British Industry, warned member companies about the dangers of increasing unit labour costs and urged them to keep a firm grip on their non-wage employment budgets.

The car industry in Britain - beyond Jaguar - is turning into a cause for concern for those worried by the dangers of wage-driven inflation.

Both the Rover group and the trade unions remain confident that the company's 29,000 employees will accept a two-year pay offer negotiated for them last week.

This involves 3.7 per cent basic rate increases from November 1, with a further 4 per cent, or the equivalent of the inflation rate if higher, from November 1 1996. Rover workers with a full attendance record are to receive payments of £150 in their pay packets this month through the com-

pany's profit-share scheme.

The size of the deal has surprised some observers but it reflects the new optimism in the group about its market prospects.

Two other car companies - Nissan and Peugeot Talbot - are due to seek two-year agreements with their unions shortly and they are under pressure to reach deals in

line with that of Rover. The rest of the vehicle sector is not involved in wage negotiations this year. But Ford is due to increase pay by at least 3.5 per cent next month in the second stage of a two-year wage agreement while Vauxhall paid out a 3 per cent improvement in September in a similar two-year deal.

Both Honda and Toyota have one-year agreements and neither expire until April. This year their employees received pay rises of 3.7 per cent and 4.8 per cent respectively.

But the widespread use of two-year wage agreements in the car industry is building a leap-frogging tendencies between the companies. "A 4 per cent rise is already a benchmark for next autumn's

negotiations," said Mr Alistair Hatchett, editor of Incomes Data Report, yesterday.

The steady upward pressures on pay are by no means confined to the car industry. A number of settlements over recent weeks suggest rises are moving above 3 per cent as companies adjust their offers under the threat of industrial conflict. These include:

- A 3.5 per cent plus £325 lump sum deal from October 1 for manual workers at British Aerospace's plant at Woodford in Cheshire after a 24-hour stoppage by operators.
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Mr Davies sees this as a "creeping" rise in the wages trend above the inflation rate and level of productivity improvements.

## Waldegrave plans tough 'green' farm measures

By Alison Maitland and Deborah Hargreaves

Mr William Waldegrave, the agriculture minister, is discussing controversial proposals to force European farmers to adopt environmentally friendly practices in return for the £8.1bn payments they receive each year as compensation for cuts in grain prices.

Mr Waldegrave described the proposals - which would need

approval from Brussels - as a "complete revolution" in how a large part of the European Union's farm spending is allocated. "I'm sure it's right and sensible for farmers to widen the base of their subsidy to take account of environmental conditions. It helps to explain to the public why they are paid," Mr Waldegrave said.

He added there would be a lot of hard negotiating before a deal was made on the idea. He will also face opposi-

tion from British farmers who fear environmental conditions would not be implemented by other EU countries, leaving the UK at a disadvantage.

The National Farmers' Union said: "Our primary concern is the extra cost such a policy would impose on UK farming businesses when we are competing with other European countries which don't have these costs."

Britain has already imposed over-grazing penalties on live-

stock farmers as a unilateral measure. Although Mr Waldegrave said he would like to see environmental conditions applied across the EU, he did not rule out applying them unilaterally.

Ministry officials met representatives of the National Farmers' Union, the Country Landowners' association, which represents many farmers, and conservation bodies, including the Council for the Protection of Rural England

and the Royal Society for the Protection of Birds, earlier this week to discuss how environmental conditions could be attached to cereal payments.

The discussions centred on a scheme that would involve farmers protecting environmental features of their land such as hedgerows, ponds, dry-stone walls and wildlife habitats in return for subsidies. But Mr Waldegrave wants to avoid too much bureaucracy or intrusive inspections.

Mr Ben Plowden of the Council for the Protection of Rural England said: "As an absolute minimum, while farmers are in receipt of substantial sums of public money, they shouldn't be causing further damage to the environment." He added that 3,500km of hedgerows each year are still being lost in England and Wales, while the Royal Society for the Protection of Birds has warned about the decline in common farmland birds.

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**TREND**  
ANALYSIS & RESEARCH

## Paisley condemns PM's initiative

By John Murray Brown

The Reverend Ian Paisley offered his own typically unflattering interpretation of Mr Major's speech yesterday, accusing the prime minister, not for the first time, of renegeing on his word. If Ulster's jigsaw is ever to be complete, Mr Paisley and his Democratic Unionist party represent one piece that still has to find a home.

In contrast to the warm welcome from across the community for Mr Major's initiative to bring Sinn Féin into exploratory talks, a statement by Mr Paisley issued from the DUP's Belfast headquarters even before the prime minister had made his address at the Europa Hotel - described the speech as "another victory for the IRA".

There are no doubt some people in the province's isolated rural communities who share this analysis. But as the peace process has inched forward, the perception grows that it is Mr Paisley, not so much hardliners on the nationalist side, who remains the obstacle to a settlement on a lasting peace.

Mr Paisley has warned, often in apocalyptic terms, that the Downing Street declaration and the ensuing peace process has put the union under threat. He, more than other Protestant politicians, is implacably opposed to any suggestion that Dublin has a role to play in Northern Ireland - the

basis for the cross-border institutions envisaged under the framework document now under discussion between London and Dublin. As for reform of the 1930 Government of Ireland Act, this is almost an article of faith.

There are some who believe that Mr Paisley's deputy, the MP Mr Peter Robinson, may yet emerge as the voice of reason in broking a way to bring Mr Paisley in from the cold. But if that is the case, Mr Robinson's response to yesterday's announcement did not suggest a change of heart.

Increasingly Mr Paisley appears out of step. While Mr Major has assiduously courted the support of Mr James Molyneux, a Ulster Unionist, he has made little effort to win over Mr Paisley, whose temperate outbursts, culminating in his expulsion from Number 10 on September 7, have made him appear increasingly isolated.

The tacit backing of Mr Molyneux has been crucial in determining the pace at which Mr Major has proceeded. Even yesterday, in a statement aimed largely at nationalist opinion, Mr Major held out something for the unionists, with the proposal to restore what he called "local accountability". Dublin welcomed the proposal, but emphasised that this would be part of an overall agreement.

Exactly how Mr Major's proposed assembly will be different from, and more durable

than, earlier failed experiments in local administration is hard to imagine. Here again, unionists are split. The DUP has long favoured a complete devolution of powers, but is boycotting the talks being held with Mr Michael Aherne, the Northern Ireland minister. Mr Molyneux on the other hand has long argued that devolution is a dilution of the union and a step towards separation.

The road to a successful agreement is still strewn with pitfalls. If the main challenge for both Dublin and London is to get the Ulster Unionists and the moderate nationalist Social Democratic and Labour party together, moving ahead without Mr Paisley is fraught with danger.

It is doubtful that Mr Paisley and his supporters can cause the massive union disruption of the 1970s strike. But the steady Paisley cocktail of unionism and fundamentalist Protestantism still commands considerable popular support, particularly in rural areas of Antrim and North Down, his stronghold.

In Dublin at least, officials believe it is now the next big hurdle to peace to win the acquiescence if not the explicit support of Mr Paisley. The danger for Mr Molyneux is that with Mr Paisley outside the process, Mr Molyneux will face a barrage of attack. If the peace talks fail, Mr Paisley could re-emerge as the surviving stalwart of unionist interests.



Protesting Democratic Unionist councillor Cedric Wilson was dragged away from the Europa Hotel

## Major takes risks to boost confidence

By Philip Stephens, Political Editor

Recognition yesterday by Mr John Major that the IRA and its loyalist counterparts intend a permanent end to violence was accompanied by an extensive package of measures to restore normality to the province after 25 years of terrorism.

In his speech to the Institute of Directors in Belfast, Mr Major admitted he was taking risks on the IRA's intentions after its refusal to spell out explicitly that its campaign of violence had ended for good.

But he made clear that his aim was to create an environment in Northern Ireland which would make it difficult if not impossible for the IRA to return to violence.

Alongside the government's "working assumption" that the IRA ceasefire was intended to be permanent and its willingness to open exploratory talks with Sinn Féin before the end of the year, Mr Major listed a series of immediate confidence-building measures:

- All border crossings between the north and the republic are to be re-opened.
- The exclusion orders on Mr Gerry Adams and Mr Martin McGuinness of Sinn Féin have been rescinded. They are free to travel anywhere within the UK, provided they remain committed to the democratic process. Other exclusion orders will remain in place for the time being.
- Troop levels will be reviewed in relation to the threat but the government's "firm objective" is to return to exclusively civilian policing.
- The government will enter "at the appropriate time" into contact with loyalist paramilitaries and consider how the interests of such groups can be represented in the political talks process.
- A conference in Belfast in December involving investors from Britain, Europe, America and the Far East will aim to boost the flow of inward investment into the province.

A task force is developing a new European Union initiative for Northern Ireland which will result in a substantial injection of "new money".

The prime minister said that the proposed talks with Sinn Féin would rest on the assumption that it continued to establish a commitment to "exclusively peaceful methods" and on the IRA's continuing to show it had ended terrorism.

Over the medium term there could be no assurance of peace until the paramilitaries on both sides had handed over their weapons. He intended to develop a joint approach with the Dublin government on the "deposit" and "decommissioning" of guns and explosives.

In a reference to the demands of republican groups for "self-policing" Mr Major insisted: "No groups will be allowed to take the law into their own hands. All sections of the community must have confidence in the police."

Turning to the framework document under discussion with the Republic to establish new relations between the two governments and between the north and south, Mr Major said it would be based on an "unshakable" constitutional guarantee to the people of Ulster that they would decide their own future. It would be a basis for negotiations rather than a blueprint.

Meanwhile the British government would produce its own proposals for devolution of political power to a Northern Ireland assembly. The restoration of local accountability meant neither a purely internal solution, nor a return to domination of one side by the other, would achieve this.

Finally - and importantly - Mr Major reiterated that all proposals for the province's political future would be published before any negotiations between the political parties. The eventual settlement would be submitted to a referendum in the province.

## Overall timing remains in doubt

By John Murray Brown

The prospect of exploratory talks with Sinn Féin starting before the "year is out" is about the only concrete date in Mr John Major's speech to the Institute of Directors in Belfast yesterday.

The timetable from here is hard to predict.

Mr Major and his Irish counterpart Mr Albert Reynolds are due to meet at Chequers on Monday to inject new momentum into the peace process. The Irish government in particular is keen to press ahead, and bring Sinn Féin into the democratic fold, concerned that a delay could play into the hands of hardliners in the movement opposed to the ceasefire.

Mr Reynolds expects to have his cross party Forum for Peace and Reconciliation under way at the end of the next week. One view in Dublin is that the forum may turn out to be a useful halfway house for Sinn Féin, in its spell of democratic quarantine, while the painstaking verification of the ceasefire and negotiation over surrender of IRA arms continues.

The next crucial date will be the publication of the framework document, which will seek to outline the "shared understanding on the elements of a settlement that is likely to receive widespread acceptance by the people of Northern Ireland". Officials hope it can be concluded by the year end.

The forum is expected to sit through to the autumn next year. If there is a UK cabinet reshuffle before the general election and a change in the secretary of state, that could delay the process for six months. With local elections in the meantime, one view is that substantive talks involving the British government and Sinn Féin may not take place before autumn 1997.

## Work population faces mixed fortunes

By Our Belfast Correspondent

Ulster's so-called peace dividend will have mixed fortunes for Northern Ireland's workforce.

While the Industrial Development Board, the province's main jobs agency, has recently reported successes in attracting overseas investment, a number of local companies are experiencing difficulties in securing orders.

Harland and Wolff, the Belfast shipbuilder which currently employs 2,000

people, has said recently it is prepared to build a ship at a loss in order to protect continuity of employment.

Province-wide estimates suggest that employment in the security sector, which includes the Royal Ulster Constabulary and private security firms could fall by as much as 20,000.

Conversely, the tourism industry in Northern Ireland is expected to thrive on the prospect of peace.

At present the industry employs about 10,000 people and is worth about

£130m to the local economy. It is felt these figures could double if peace is genuine.

It has always been clear that the achievement of peace would lead to a reassessment of public spending priorities in the province.

Yesterday the Northern Ireland Economic Council, in its Autumn Economic Review made clear that the government should not consider removing money from Northern Ireland.

Its report said: "To argue that 'peace'

will bring more costs than benefits seems perverse in the extreme... What is important is that the adjustment problems that will arise are dealt with carefully, sensitively and gradually.

"With regard to the substantial opportunities that would open up in the longer term, it is imperative that these are exploited to the full."

The report maintained that the latest economic indicators appeared to suggest that local manufacturing output was continuing to outperform Britain.

## Sinn Féin aims to unite in unarmed struggle

By Our Belfast Correspondent

An early public reaction from Sinn Féin vice president Mr Martin McGuinness yesterday gave a broad welcome to Mr Major's announcement as a further step towards peace. "A move in the right direction. It is quite clear we must build up on all this," he said.

However, intentions notwithstanding, there is no certainty yet that the latest measures will banish for ever the prospect of a resumption of IRA violence. This was the view yesterday of republican insiders who are sensitive to the strains within Sinn Féin and the IRA after the IRA's organisation's ceasefire declaration seven weeks ago.

In the coming days, the Sinn Féin leadership will aim to reassure rank and file republicans that Mr Major's announcements show there is political advantage to be gained from a cessation of violence.

What Sinn Féin leaders have dubbed the "unarmed phase of the struggle" has paved the way for a reopening of border crossings, the prospect of exploratory talks with the British government by Christmas and the lifting of exclusion orders on Mr McGuinness and Gerry Adams, the party's chairman.

These measures have been high on the list of republican demands since the ceasefire. But the Sinn Féin leadership realises that it has to continue to be seen to be gaining politi-

**Jimmy Burns says hardline elements could still jeopardise the ceasefire**

cal ground in the coming weeks if it is to contain the restlessness of hardline elements linked to the IRA.

If and when it comes to talks with the government it will aim to secure further concessions from the British government. At the same time it will seek to avoid taking any further unilateral moves towards demilitarisation which may risk a damaging split within the republican movement. The IRA is not about to give up its arms.

Within republican circles, there has been some optimistic talk - both before and since the IRA ceasefire of a new, strengthened nationalist consensus emerging from the current peace process.

At the same time, there is a sceptical view that the British government is stringing the IRA along, holding out olive branches while aiming to undermine the republican movement both politically and militarily.

Writing in the latest issue of the influential Irish political magazine *Fortnight*, former IRA political prisoner Mr

Anthony McIntyre says: "The ceasefire has come and gone, and the British have not gone... while an imaginative step by the republican leadership, will be a major achievement for them to avoid this ceasefire being more disastrous than the last. The lesson of history is simple: prolonged ceasefire sounds the death knell for republican struggle."

For the moment, there is little indication of the republican leadership abandoning its public commitment to the peace process. Both Mr Adams and Mr McGuinness are thought to still be holding the IRA army council to the belief that any resumption of violence in the immediate future would torpedo the chances of talks before Christmas.

But it is widely recognised that the next stage of the process will severely test the limits of republican patience. In his public appearances in recent weeks, Mr Adams has noticeably been increasing his demands for a withdrawal of British troops. He has also been uncompromising on the question of consent, rejecting the unionist position that Northern Ireland's future should be settled by the people of the province.

After yesterday, the stage may be set for early talks between Sinn Féin and the government. But republicans are gearing up for some hard bargaining from which they expect results not defeats.

## City defence to stay for two years

By Jimmy Burns

The Corporation of London yesterday said it expected security measures to protect the City from IRA attacks to stay in place for "two to three years".

Mr Michael Cassidy, the chairman of the Corporation's policy and resources committee, said: "The intelligence we have is that the IRA is continuing to move weapons and equipment around, and the City of London remains a prime potential target, much more than any other part of the country."

While there has been a relaxation of armed police checks in London since the ceasefire, Mr

Cassidy said that businesses and the police remained in favour of making a restrictive traffic scheme permanent and of continuing lower profile searches of suspicious vehicles entering the City.

Mr Cassidy said the annual cost of these security measures of between £5m and £10m were "totally manageable". The corporation has an annual rate collection of £700m.

The position taken by Mr Cassidy reflects a private consensus in the security forces that the possibility of IRA terrorism resuming in the future cannot be ruled out. In the case of London, there is the extra consideration being given to the resumption of violence in the Middle East and the threat of terrorist action by extremist Arab groups.

The government's conciliatory announcement yesterday is thought to have been based on advice from MI6, the intelligence service, that the IRA's internal discipline is holding around the ceasefire although the possibility of maverick units carrying out a terrorist attack has not been ruled out.

One senior anti-terrorist officer said: "The situation is still too fragile. Much as we'd like to say it's all over we cannot risk lowering our guard."

Of great concern is the IRA's large stockpile of arms, much of which remains hidden in the

Irish republic. The army includes several hundred rifles and grenades, numerous mortars, and enough commercial and home-made explosives to provoke considerable tactical destruction on both sides of the Irish sea for years to come.

While the IRA refuses to hand the armoury over, British intelligence is trying to keep a close watch on the movements of suspected terrorists.

While some IRA "volunteers" are thought to be enjoying a period of peace, others remain determined not to allow their military efficiency to be weakened by the peace process. The IRA may not be bombing, but its capacity to bomb is firmly intact.



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## NEWS: UK

# Concern over pension mis-selling to widen

By Alison Smith

A new area of concern about pension mis-selling will be opened up next week when a report from the City's chief regulator highlights the position of people who bought personal pensions and did not join their employers' schemes.

Pension sales agents and advisers could face significant compensation claims for selling personal pensions when a better option for customers

would have been to go into an occupational scheme.

The Securities and Investments Board, the financial watchdog, is expected to publish on Tuesday its guidelines for how life companies and advisers should compensate customers who have suffered from poor advice to take a personal pension.

The original focus of its work was the possible mis-selling among the 500,000-plus pensions sold to people

transferring a lump sum out of a scheme run by a former employer. Concern about this aspect of pensions had been sparked by a study suggesting that nine out of 10 cases examined did not meet regulators' standards.

But the work expanded to include people who were in their employers' pension schemes and were advised to opt out and start a personal pension instead.

Results of a study commissioned

by the watchdog from consulting actuaries Bacon & Woodrow on "opt outs", are expected to identify personal pensions sold to "non-joiners" as a problem in its own right.

Life insurance companies and advisers say that the number of cases where people were advised to leave an occupational scheme to which they already belonged is likely to be relatively low, because they would clearly have been giving

up contributions to their pension from their employer.

But they acknowledge that would have been easier to sell personal pensions wrongly to people who could have joined an employer's scheme but had not done so, simply by failing to check properly whether they would qualify for membership.

A critical factor in determining the number of cases which have to be reviewed and where compensation must be paid will be what SIB

says about how far sales agents and advisers should have checked whether a customer could join an employer's scheme and whether, if the customer was eligible, the advice was to remain outside the occupational scheme.

These cases of "non-joiners" are likely to be hard for life companies and advisers to identify from their files, which could make it expensive to find all those who should qualify for compensation.

## BT and Mercury rivalry heats up

By Andrew Adonis

Competition between British Telecommunications and Mercury intensifies following a report by BT claiming that its service is cheaper not only for typical home users but also for many high-volume users.

Mercury disputed some of the figures and pointed to its own discount packages - but analysts saw the BT move as increasing the pressure on Mercury to cut its prices further to retain a competitive edge.

The BT report, verified by consultants Coopers and Lybrand, claimed that even residential customers with phone bills substantially above £75 a quarter - Mercury's target market - are typically better off sticking with BT than switching to its rival for long-distance and international calls.

The figures are based on what BT claims are typical calling patterns, and include the range of discounts available to BT customers which Mercury usually disregards when making its own pricing claims of "guaranteed" savings over BT.

The figures also assume that Mercury customers continue to make their local calls via BT. Mercury has no local network and advises its customers to use BT for local calls.

Analysts highlighted the comparison with the US, Australia and New Zealand, where new telecoms companies competing with dominant operators have come under increasing pressure as their initial success has forced the local

"giants" to cut their prices and market themselves more effectively. Mr Laurence Heworth, telecoms analyst at Robert Fleming, the brokers, said: "Mercury is now under such pressure that it cannot afford to maintain the same price differentials as in the past."

BT has been forced to cut its prices sharply by OfTel, the telecoms regulator. Over this year its prices will have fallen by an average of about 12 per cent before taking account of inflation. Each BT price cut puts pressure on its competitors to follow suit.

Mr Michael Hepler, BT managing director, said: "This review compares like with like, matching our best deal with their best deal, and we are better."

Mercury said: "The fact remains that Mercury's calls cost less than BT's calls and for typical Mercury customers we beat BT hands down."



Heavy drinking: brewers, pubs and licensed retailers claim they are feeling the pinch from cheap imports of lower duty alcohol

## A stiff one for drinks lobby

Roderick Oram on why it will be difficult to persuade the chancellor to cut excise duties

With one month to the Budget and two to Christmas, the debate over alcoholic drink duties and cross-channel shopping is becoming as clamorous as a Saturday night pub "discussion".

"I've never seen a lobbying year like it," said a senior drinks executive.

Wednesday brings the first public opportunity this season for advocates of duty cuts to make their case. The Brewers and Licensed Retailers Association (BLRA) is appearing before the first ever hearings on the subject held by the Treasury select committee of backbench MPs. The committee, which has received some 50 briefing papers on the topic, hopes to publish a report before the November 29 Budget.

Brewers, along with distillers, pub and off-licence owners and other interested parties, are taking a different tack this year. In the past they have argued narrowly for a cut in excise duties on the grounds of equality of tax treatment and as a necessary stimulus to trade.

This time their pre-Budget submissions to the committee and Treasury have tried to quantify the wider economic and social damage they claim the rising tide of drink imports is causing. Switching to the offensive, they have also sought to show the broader economic benefits of a duty cut.

Cheap imports of lower duty beer from France now satisfy 3.3 per cent of UK demand, equal to nearly 15 per cent of

beer drunk at home, the association estimates. As imports rise, pubs and clubs will be closed and jobs lost. "The British way of life will have been changed and the pub-going habit will be a thing of the past," says *The Real Alternative*, the association's submission to the Treasury.

Moreover, the 1993 lifting of personal import restrictions was a "smugglers' charter". Vans coming back from Calais now account for one-third of all duty-paid imports of beer "and customs and excise investigators say that it is a focus of interest for organised crime".

The solution, the brewers say, is to halve beer duty to 15p a pint this year and to the European median rate of 8p by 1997. The rate in France is only 4p. To assuage Treasury fears that the excise revenue lost could never be recovered elsewhere, the brewers commissioned economists at the Henley Centre to assess the wider stimulus of duty cuts.

Henley concluded a virtuous circle would prevail. People would drink more, reversing a steady decline since 1979. This in turn would bring higher sales of food, wine, spirits and other products in pubs. Higher sales would justify higher investment to make pubs more attractive, pulling in even more trade. By 1999, 58,800 full-time equivalent jobs

and how much is sold illegally to third parties is even harder to quantify.

Yet, the import volume may only be half the association's estimates, according to Mr Ian Pressnell of Plato Logic, a drinks industry consultancy. He bases his estimates on primary sources such as the volume of French and Belgian beer production and the number of cross-channel vehicle and passenger trips.

He and other critics of the drinks industry figures are also sceptical about the extent to which a 15p cut in duty would encourage people to drink more. Beer consumption has been falling because of changing habits rather than rising taxes, he says.

Given the complexities of the arguments and the government's reluctance to lose revenue or to gamble that a duty cut would stimulate the drinks economy, lobbyists are trying a twin-track approach of tackling the EU as well.

Duty rates vary not only between countries but also between types of alcoholic drink, creating substitute markets and competing products.

Trying to encourage continental countries to raise their low duty rates is a notch more prove easier than persuading the British government to cut its rates. But however strong the arguments are in London and Brussels, movement in this Budget is considered highly unlikely.

With nine drink-shopping weeks to Christmas, bargain hunters had better make their travel reservations.

## Nationwide puts strain on Link

By Alison Smith

Holders of instant access savings accounts with Nationwide Building Society, the UK's second largest, will have to pay from next month to use cash machines other than those run by the society itself.

The move to levy a 60p charge per transaction on these customers imposes a fresh strain on the co-operative basis of the Link network.

It looks set to lead to the imposition of other charges. Halifax Building Society, the UK's largest, already charges customers 60p for each transaction carried out on a non-Halifax Link machine. Abbey National and Woolwich Building Society, the UK's third largest, also charge.

The network was set up in 1987 enabling banks and building societies without many cash machines to offer customers a more extensive system and so compete more effectively with the larger clearing banks.

Initially the system involved no charge to customers while the Link members paid each other for every transaction by the High Court judgment against them in the Gooda Walker case are to go to the Court of Appeal.

The decision was immediately attacked by the Gooda Walker action group, representing 3,096 Names, as a waste of time and money.

Mr Justice Phillips ruled on October 5 that the Gooda Walker agency had taken "culpable" and "unjustified" risks and that the Names, individuals whose assets have tradi-

Consumer spending on credit and debit cards fell in September, according to figures released by the Credit Card Research Group yesterday, but the decline was mainly due to seasonal factors, Philip Coggan writes.

The group said that card spending dropped from £5.02bn in August to £4.68bn in September, although the August figures had been boosted by bank holiday spending.

Figures for September's

commercial options available". The charges imposed by Link members, discouraging use of other organisations' machines, had already had an impact on the income it received from the external use of its own machines, the Alliance & Leicester said.

Link said it acknowledged the Nationwide move "with regret". The cost to each member of the 31 organisations in the co-operative scheme was

retail sales, published earlier this week, showed a 0.5 per cent monthly rise. The retail sales statistics are expressed in volume terms and are seasonally adjusted.

Credit and debit card spending in 1994 has been substantially higher than in 1993, partly due to the growing use of cards as a method of payment. In the three months to September, card spending was 17 per cent higher than in the same period in 1993. Figures from the British Bankers Association and the Central Statistical Office have also shown strength in personal sector borrowing.

Over the past year, card

spending has grown at a quicker rate among hotels, the food and drink sector and other retailers. The slowest growth has been in the entertainment sector. Debit card spending has grown faster than that for credit cards, with the bulk of debit card spending occurring in supermarkets and off-licences.

"substantially less" than the 60p Nationwide was intending to charge, it said.

If the charges mean that each organisation's customers increasingly make less use of other organisations' cash machines, it will make the position particularly difficult for Link members which have few cash machines themselves and whose customers therefore make great use of other machines.

## First contract for Swans' rescuer

By Chris Tighe

The company which has agreed to buy the Hebburn yard of Swan Hunter, the Tyne-side shipbuilder in receivership, has won its first ship repair contract for the site before the purchase deal has been legally completed.

On Thursday, the day the Hebburn yard's sale to Tees Dockyard was due to be completed, the Stena Well Services, an offshore oil and gas field support vessel, will arrive for overhaul and refurbishment.

The Hebburn site's buyers - who clinched their purchase agreement 10 days ago with receivers Price Waterhouse - have started interviewing ex-Swan Hunter employees and jobless Tyne-side ship repair workers.

They need to recruit 100 temporary workers for the three-week Stena contract, but those taken on have the prospect of

becoming part of the new permanent core workforce at Hebburn, expected to reach 200 within a year.

Yesterday Mr Eric Welsh, managing director of Tees Dockyard and chief executive of its new Hebburn business, Tyne Tees Dockyard, said the speed with which the first contract had been won had raised eyebrows. "It's come so fast," said Mr Welsh. "Everybody on the Tyne is delighted."

The six-figure contract was won in competition against a Rotterdam ship repairer. Mr Welsh was particularly pleased to get a vessel into Hebburn on the first day of ownership. "It will start paying for itself straight away."

Other contracts for Hebburn are under negotiation including serious inquiries from Norwegian shipping fleets. "I would guess the next two to three contracts will employ over 200," he said.

## Lloyd's agents to appeal in Gooda case

By Jim Kelly

Lloyd's of London agencies facing record claims for compensation from members after the High Court judgment against them in the Gooda Walker case are to go to the Court of Appeal.

The decision was immediately attacked by the Gooda Walker action group, representing 3,096 Names, as a waste of time and money.

Mr Justice Phillips ruled on October 5 that the Gooda Walker agency had taken "culpable" and "unjustified" risks and that the Names, individuals whose assets have tradi-

tionally supported the insurance market, should receive compensation. The Gooda Walker action group estimated compensation at £504m.

Clyde & Co, the solicitors acting for the agencies' errors and omissions insurers, which cover awards for negligence, said yesterday that the judgment would be challenged with particular reference to the "approach adopted in assessing damages recoverable".

Mr Michael Deeny, chairman of the Gooda Walker Action Group, said: "Some people don't know when they have lost. There is certainly no prospect of our judgment

being reversed on negligence."

"Mr Justice Phillips' principles of quantum will give us an estimated 80 per cent of our losses. In our view the Court of Appeal is most likely to maintain his principle or alternatively to increase the damages awarded to us. This is a deplorable waste of the scarce financial resources of Lloyd's syndicates. Spending further millions on legal fees neither helps the ruined Names nor the Society of Lloyd's as a whole."

Mr Deeny said that the decision to go for an appeal showed an "irresponsible disre-

gard" for the best interests of the market. He predicted that the appeal would be heard early next year.

The delay caused by the appeal is likely to increase the pressure from hard-hit Names for interim payments to be made ahead of a final Court of Appeal decision.

Yesterday the insurers intervened in the continuing High Court proceedings over Gooda Walker to seek clarification on whether they were bound to back agencies asked to make interim payments.

The insurers, out of whose funds any compensation eventually awarded would be paid,

also want to know if, in the light of the judgment, the Gooda Walker losses arose out of more than one "originating cause". This could affect the amount paid under each agent's insurance policy.

A spokesman for Clyde & Co said: "These steps are not undertaken lightly. Insurers have the benefit of detailed analysis and advice from leading counsel which has been carefully considered in arriving at their decisions."

The progress of the Gooda Walker case is being closely watched by other groups of Names taking legal action against Lloyd's agencies.

## Inquiry told of Westminster's elector targets

By Rob Evans

Senior Westminster councillors and officials, were named in the district auditor's provisional report which found, after a four-year investigation, that they had been selling homes to bring likely Conservative voters into marginal wards before the 1990 local elections.

The inquiry heard that another of the respondents - Mr Robert Lewis, the council's deputy chief solicitor between 1986 and 1988 - said the secret plan for the marginal wards - known as "key wards" - was well known throughout the senior ranks of the council.

He had told Mr John Magill, the district auditor, in an interview that it was

like "the lava that dared not speak its name".

Mr Andrew Arden, the QC for the group of Labour councillors and residents who levelled the gerrymandering allegations, said council officials were instructed by Tory councillors to compile detailed profiles of the populations in each of the marginal wards.

He said these profiles were used to calculate the number of new residents - described in confidential documents as "new electors" - required to secure victory at the local elections.

Mr Arden said the targets ranged from 450 in Millbank ward to 150 in

Victoria ward totalling 2,200 in all. Another fax was sent on March 24 1987 from Dame Shirley's office to Mr Matthew Ives, the council's chief solicitor. It asked whether the council could sell off all the homes which became vacant in the marginal wards, without affecting its statutory duties to house the homeless. Mr Ives warned her "anything which smacks of political machinations will be viewed with great suspicion by the courts".

Mr England had answered the same question by saying that the chance of being charged by the district auditor was "fairly tenuous".

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## Tunnel hit by further setback

The Channel tunnel project suffered another embarrassing setback yesterday when a high-speed Eurostar train carrying the heads of British Rail and Eurotunnel suffered a breakdown. Charles Batchelor writes.

The £24m express train carrying Sir Bob Reid, British Rail chairman, Sir Alastair Morton, co-chairman of Eurotunnel, and 350 other guests developed a fault while travelling through the tunnel and was halted at Calais.

A replacement train was fetched but the travellers, including a party of 50 school children who had won a competition, were more than two hours late arriving in Paris. This is the third time within a week that a Eurostar train has broken down. On Thursday a train due to carry 400 journalists from London to Paris on an inaugural run had to be taken out of service while on Friday last week a train on a test run broke down in Kent.

European Passenger Services, the British partner in the railway consortium which runs Eurostar, said that early tests lasting several months had thrown up few faults but new ones were now starting to emerge.

An official denied there was a design fault though she acknowledged that the Eurostars were complex because of the need to run on different power systems and signalling networks. The three recent breakdowns each had a different cause.

## Newcastle starts schools campaign

A £1.5m campaign to raise educational standards in the West End of Newcastle was launched yesterday.

Newcastle City Challenge, part of the government-backed scheme to regenerate problem urban areas, says it is the first such project in the country. More than a third of children in the targeted area enter secondary school at 11 with a reading age below that of an average eight year old.

Some of the money will be spent on extra teachers and on four education access centres to help parents become actively involved in their children's education.

## Ministry allows cattle flights

The agriculture ministry yesterday gave its approval for live calves to be flown from Humberside to Rotterdam to get around a ban imposed by ferry companies on the shipment of live animals to Europe. Animal welfare groups have protested against the flights of up to 200 calves in unpressurised aircraft.

## Post offices open longer for lottery

Post Office Counters said yesterday that 178 main high street post offices - a quarter of the total - will stay open until 7pm every Saturday to sell tickets for the National Lottery.

All other post office services will be available during the extended hours. At the moment main post offices close at either 12.30 or 1pm on Saturdays. The extra hours will be worked by voluntary overtime.

## Press Association buys new HQ

The Press Association, the news agency which sold its Fleet Street headquarters to Reuters in February, has bought a new office building in the Victoria district of London.

PA is buying 292 Vauxhall Bridge Road from Banque Paribas for an undisclosed price and plans to move next summer. The news agency has been in its current building since 1939 and has occupied premises in Fleet Street for 126 years.

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# Shock horror.

Here, exactly as they were brought out of China, are three objects which have inflicted more pain and terror than you can ever imagine.

They are electric batons, smuggled out of the Chinese prison, where they were being used to torture prisoners.

The dirt on them is real.

The man who brought them out took a terrible risk. He was desperate to show the world what is happening in China's prisons.

The baton on the left is shaped for easy insertion into the body.

When the black button is thumbed, the three metal bands around the shaft become alive with electricity.

The chunky object looks like a curling tong, but when it touches you, there's a crackle of blue flame and a shock powerful enough to burn skin and damage internal organs.

It was made in the Jing Jiang Radio No. 4 Factory, in Jiangsu, one of many such works in China mass-producing electric truncheons, cattle-prods and other items, which they then proudly advertise in glossy brochures.

In Chengdu city, for instance, the Mensuo factory specialises in ironware: shackles, chains, handcuffs, thumb-cuffs and leg-irons.

Some of these gruesome objects are immensely heavy, others are ingeniously designed to cause the maximum pain.

This torturer's toolkit is used daily in China's prisons to punish those who have called for the democratic freedoms we often take for granted.

## The torture of Liu Gang.

Liu Gang is a Physics graduate student from Beijing who took part in the 1989 pro-democracy demonstrations in Tiananmen Square.

One of the 21 'Most Wanted' students in China, he was jailed in 1989 and later sentenced to six years imprisonment for 'counter-revolutionary' crimes.

Liu is what Amnesty calls a 'prisoner of conscience', that is, someone locked up in prison for expressing his non-violent political views.

Not just imprisoned. In a letter smuggled out of China last year, Liu claims that he has been repeatedly tortured. The Chinese Government denies this, but no impartial investigation has ever taken place.

Its denial might carry more weight if the vicious tortures Liu Gang and other prisoners describe were in the slightest bit unusual, but, sadly, they are not.

## A catalogue of horrors.

We now begin a catalogue of horrors that some people will find upsetting.

Please read it carefully. The information has come directly from prisoners who want the world to know what they are suffering. Often they have taken great risks to get the details out.

Liu Gang was one of 11 political prisoners held at Lingyuan No. 2 Labour-Reform Detachment in Liaoning province.

Their ordeal began when they angered the authorities by refusing to admit they were 'criminals'. Six were taken away to be tortured. When the electric baton being used on Tang Yuanjuan ran out of power, the guard began kicking him with tough leather boots and broke two of his ribs.

Leng Wanbao remained silent when questioned, so they forced open his mouth and stuck the electric truncheon in.

Kong Xianfeng was attacked in a special way. The guards applied their electric batons simultaneously to different parts of his body and he started bleeding behind the ears.

When Liu Gang's turn came, they applied the electric batons to his genitals.

He was put in leg-irons weighing about 20 pounds - he wore these for several weeks.

Liu was also forced to sit without moving on a bench for as long as 12 hours a day - leaving his body in agony.

## 50,000 volts through a naked man.

On the second anniversary of the 1989 massacre in Beijing, a prisoner called Li Jie staged a one-day hunger strike in memory of those who had died in Tiananmen Square and elsewhere calling for democracy - many of them mown down by machine guns, some crushed by tanks.

He was stripped naked and dragged onto a stage where the prison's Brigade Commander shouted and blustered at him before applying a huge 50,000 volt electric baton to his inner thighs.

Two other guards gave him high voltage shocks to his head, neck, shoulders, armpits, chest, stomach and fingers.

Li Jie went into spasms and passed out.

## 'Su Qin carries a sword on his back.'

To complement their skill with electric batons, many Chinese prison guards are shackle experts.

They have invented several tortures with fancy names like: 'Bending three wheels', 'A string of bells', and 'Su Qin carries a sword on his back.'

In 'Su Qin', one arm is bent back over the shoulder, while the other is twisted behind the back.

The hands are pulled together and the wrists tightly shackled.

A prisoner manacled in this manner can be hoisted by his wrists and left hanging for hours, till he loses all feeling in his arms.

'Chain-shackling' is the science of cuffing a prisoner's hands and feet together.

One especially cruel method is as follows: find the smallest handcuff that fits the prisoner's wrist, then cram both wrist and ankle into it, using pliers and hammers to snap the cuff shut.

The pain of this torture is indescribable.

The prisoner reportedly screams all the time he or she remains shackled, until silenced by hoarseness.

Screaming, of course, can make matters

worse, if it irritates the guards.

At Mian County Detention centre, in 1990, one young prisoner was left shackled this way for several days.

He screamed and wailed all day, and all night, so loudly and pitifully that no-one could get any sleep.

The shackles finally came off to reveal, apparently, rings around his wrists and ankles of red, rotting flesh.

## 'The old ox ploughing the land.'

In the same jail, Xie Baoquan and another prisoner were to be punished for fighting.

They were handcuffed back to back and a rope was tied around them. A group of prisoners was made to run with the rope, pulling them along.

One of the pair was able to crawl forward as fast as he could. Xie Baoquan was pulled along on his back over the rough concrete.

This activity, picturesquely called 'The old ox ploughing the land' continued until the concrete was covered with Xie's blood and his back was one massive wound from which the skin and flesh had been scraped.

He was put back into his cell without any medical treatment, his back left to suppurate.

Xie's cellmates covered his back with a cotton blanket which became soaked with pus from the wounds, and which filled the room with the stink of rotting flesh.

## Forced to eat soap from a toilet.

Some prisoners were playing chess with pieces carved out of soap.

Spotted by a guard, they quickly threw the soap chessmen into their toilet bucket. The guard forced them to fish out every piece and eat it. In Gutza Detention Centre, Lhasa, Laba Dunzhu, a young Tibetan who had taken part in a pro-independence protest was taken out into the prison yard and made to kneel.

A guard placed a boot on his neck and forced his face down into the filthy water of the latrine.

## You can do something to help.

If you're as upset by these things as we are - and we're sure you must be - there is something simple and effective you can do right here and now to help. Join Amnesty.

Even in China, our voice is heard.

The stronger we are - and the more pressure we can bring to bear on the Chinese Government - the more likely it is that the torture will stop.

The more powerfully we tell the world of the horror in China's prisons, the more difficult it becomes for governments in the free world to turn a blind eye to the prisoners' plight. This does work.

From other countries all over the world, we receive scores of letters every year from prisoners and co-prisoners who have been helped by our campaigning. These include people who had been living in daily fear of torture or death.

For them, Amnesty's intervention has brought renewed hope and relief from pain. Liu Gang is still in prison.

Years of torture had left him suffering from a prolapsed anus, haemorrhoids, psoriasis and heart and stomach trouble.

Although only 32 years old, his hair had started falling out.

Until just over a year ago, he had had no medical treatment and had been allowed only five baths in two years.

But since summer 1993, international pressure appears to have improved his situation.

His family have once again been permitted to visit him and they report that he seems to be in better health.

Earlier this year, foreign journalists were allowed to visit the prison where he is being held, but weren't permitted to talk to him.

## A letter to each of us from Liu Gang.

Last year, Liu Gang managed to smuggle a letter out of prison. Here is an extract:

"Handcuffs and shackles won't frighten me. Electric batons won't silence me. Force-feeding and brain-washing won't affect me. Forced labour won't change me. Solitary confinement and torture won't ever terrify me. Regardless of what is done to me, I shall continue to use all peaceful and non-violent means at my disposal to fight against tyranny and abuse."

Liu faced his ordeal with such courage that his fellow prisoners called him 'The Iron Man'.

He and others have taken incredible risks to tell the world about their suffering.

Surely it's impossible that people who enjoy the very freedoms which they are denied, could learn about their suffering and do nothing to help.

We're not trying to point a finger at you - this means all of us.

Liu's letter to us all ends with these words: "I have no option but to fight with all my body and soul. Please don't let me down."

There's a coupon immediately below this sentence. Please use it now.

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I wish to donate £500 ☐ £250 ☐ £100 ☐ £50 ☐ £25 ☐ £10 ☐ Other ☐

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Signed  Card valid from  Expires

If paying by credit card you should give the address where you receive your credit card bill.

Mr/Ms  Surname

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## FINANCIAL TIMES

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Saturday October 22 1994

## Step by step in Ulster

Another day, another step towards lasting peace in Northern Ireland. Just eight weeks ago it would have been prudent to avoid the expression of such optimism, however guarded. Now, as each 24 hours passes since the IRA declared a ceasefire on August 31, it is possible to argue that the tortuous process of constructing a settlement to which all assent may, against expectations, eventually end in success.

The obstacles are well-known. Past IRA ceasefires have been short-lived. The "loyalist" terrorists, who laid down their arms only a couple of weeks ago, may not be able to maintain discipline. Critically, each side expects ultimate victory. Sinn Féin is allowing its followers to suppose that entering the peace process will lead to a united Ireland. The unionists will never leave the ambit of the United Kingdom.

Seemingly undaunted, the prime ministers of Britain and Ireland have pursued the peace process they initiated when they signed a joint declaration in Downing Street last December. That committed both governments to acceptance of the will of the Ulster electorate, an undertaking reinforced by a subsequent promise of a referendum on any new negotiated deal. It also invited the terrorists on both sides to abandon violence and take their chances with the democratic process.

In Dublin Mr Albert Reynolds has addressed himself primarily to a nationalist audience; in London and, yesterday, Belfast, Mr John Major has sought to allay unionist suspicions. Both have demonstrated skill and courage. The Taoiseach is convening his forum for national peace and reconciliation, which one unionist party may attend. Mr Major has moved at a tactically deliberate pace. He intimated yesterday that the ceasefire declared on August 31 will henceforth be regarded as genuine, although the IRA refuses to declare it "permanent".

### Verbal camouflage

The two prime ministers meet at Chequers on Monday. Talks with the IRA/Sinn Féin should begin in a few weeks. There are many items on the agenda. Some will be matters of intricate negotiation, designed to persuade the perpetrators of violence to hand over their explosives as a prelude to surrendering their guns. Some will involve verbal camouflage, such as a refusal to grant an amnesty to convicted terrorists, combined with an assurance that paroles will be easier when there is no threat of a repetition of the original offence.

This delicate horse-trading

could break down at any stage. Yet the climate of local opinion is a form of insurance against a resurgence of violence. Yesterday Mr Major called for all Ulster inhabitants to speak out for peace. He lifted the ban on Sinn Féin leaders entering the British mainland, opened cross-border roads, and indicated that the number of troops on the streets would progressively be reduced. By so doing he recognised some nationalist aspirations. The business community was offered a pre-Christmas conference on investment in the six counties.

### Changes afoot

The unionists have something of greater immediate value – an unbreakable assurance that there will be no change in the constitution without their consent. Yet changes are afoot. Sooner or later the political framework being designed in Dublin, London and Belfast will have to be put on the table for debate. Mr Major has promised publication, which is essential if suspicions are to be kept to a minimum.

Ulster will be offered its own legislature, elected by proportional representation to guarantee a share of power to parties representing the Catholic minority. New institutions, answerable to both London and Dublin, would operate in both parts of the island. These might cover matters such as tourism and the environment. The structural example often cited is that of Nato, whose member states retain their national sovereignty while pooling military resources. To set the seal on the package, the Dublin government would seek to amend the articles in the Irish constitution that lay claim to Ulster, while Britain would make an equivalent change in its own law.

When all the documents have been signed, the deal will be put before the Irish electorate, north and south. Some British ministers expect the negotiations to take two years. Barring accidents, that may be a denouement before that.

The unionists are being asked to pay for peace by accepting that if they are outnumbered they may be outvoted in a future referendum. Republicans, and the IRA in particular, are expected to acquiesce in the postponement of that day of reckoning for perhaps another 25 years, and possibly forever. They are given encouragement by Dublin's words about how in due course the south will seem a more inviting place to northern Protestants. For Sinn Féin, after 25 years of violence during which they made no progress towards their goal, it is the only option that makes sense.

One statewide candidate, pockets deep with oil money and driven by a ruthless wife, wants a government that "does nothing". Another reveals on television that her daughter has been raped and her son mugged. Both major incumbents have the charisma of meat loaf. All throw mud at each other like confetti. The state itself, a magnet for immigrants for 150 years, seems on the verge of denying social services to those illegally inside its borders.

This is 1994, the supposed year of the Great Political Discontent, and the state, naturally, is California which, in the realms of the bizarre, has always taken some beating. And it may buck national trends again on November 8 by returning to the governor's mansion in Sacramento and to the US Senate in Washington a pair of extremely professional incumbent politicians, a species widely believed to be in extreme danger.

They are the dogged duo of Pete Wilson, Republican governor, and Dianne Feinstein, Democratic senator. Both have opponents notionally more in tune with the times.

Kathleen Brown, the Democratic state treasurer up against Mr Wilson, is not merely the third member of California's great dynastic political family to seek the governorship but appears the very model of the articulate, telegenic modern woman candidate. Congressman Michael Huffington, the Republican trying to unseat Ms Feinstein, is cast in the mould of Ross Perot, a political neophyte willing to spend a large chunk of a personal fortune in the pursuit of elective office.

With less than three weeks to go, the bitter and expensive campaigns – with \$27m spent on the Senate race alone by the end of last month – seem to have settled into a pattern. Mr Wilson, 50 points down this spring, has pulled into a 10-13 point lead over Ms Brown by hitting the "hot button" issues of crime and illegal immigration.

Ms Feinstein, 20 points ahead as late as this summer, seems to have weathered the storm of Mr Huffington's unprecedented negative advertising that has brought him to parity last month and now holds a 7-9 point margin. But this has been mostly because of the torrent of critical media attention that has descended on the heads of Mr Huffington and his wife.

It is often dangerously easy to poke fun at Californian politics. After all, in the last 30 years, the state has elected a retired B-movie actor (Ronald Reagan), an ageing song-and-dance man (George Murphy), a very odd fish (Jerry Brown) and a distinguished but eccentric professor of linguistics (S I Hayakawa).

Its ballot papers are always littered with populist referendums, to the point, it sometimes seems, of democracy run riot. Sam Popkin, of the University of California at San Diego, notes that in the past four years the voters of San Diego County have been asked to pass judgment on no less than 690 candidates and propositions. ("What do you have in England?" he asks rhetorically. "Three – the Commons, the European parliament and local councils.")

Yet some have been harbingers for the nation, such as the tax-cutting initiative that passed in 1978, or the environmental one ("big green") which failed in 1990.

This year's eye-catcher would deny education and non-emergency healthcare to illegal immigrants – and it will probably pass, if only to

Election campaigns for governor and senator in California are proving bitter and expensive, writes Jurek Martin

## Serious game of mud-slinging



California prize: (from top left) Governor Pete Wilson and Democratic challenger Kathleen Brown; Arianna Stassinopoulos and husband, Michael Huffington, the Republican taking on Democratic senator Dianne Feinstein

be challenged immediately in court.

Another would repeal all local anti-smoking ordinances in favour of a more lenient statewide standard, while a third seeks approval for a state-funded (or "single payer") healthcare system.

Reading California right is a prerequisite for any politician with national ambition, especially now that the 1996 state presidential primary, which traditionally wound up the election season, has been brought forward to early March.

### California's ballot papers are always littered with populist referendums, to the point of democracy run riot

This century only three Democrats have become president without carrying California – Wilson in 1912, Kennedy in 1960 and Carter in 1976. No Republican ever has, which is why George Bush's abandonment of the state in the final months of the 1992 campaign is still subject to endless second guessing. Two of the last five elected presidents – Nixon and Reagan – have called California their home.

There are serious Republicans on the east coast who believe that, if Mr Wilson wins, he becomes the automatic front-runner for the party's presidential nomination in 1996. Californians, who know him well as

mayor of San Diego, senator and governor, suspect he is more interested in the vice-presidency. Certainly his often tongue-tied and mean-spirited performance in last week's televised debate with Ms Brown was devoid of the charisma expected at the head of a national ticket. In the debate, he also half-promised to serve a full four years if returned – not that such a commitment has deterred other politicians from changing their minds.

But at the very least, as the man who could deliver California and its 52 electoral college votes, he would become a major player in a national Republican party whose divided factions, in the opinion of Professor Popkin, leave it with no apparent kingmaker. His policy record, if not his campaign, is in the moderate mainstream and includes support for abortion and a willingness to increase taxes under duress. Neither conforms to the Reaganite conservative orthodoxy that again is trying to rule the Republican roost.

National hopes on the Democratic side were also held out for Kathleen Brown, glowingly portrayed as more down to earth than her ex-governor brother, Jerry, and more articulate than her revered ex-governor father, Pat. But her campaign had been without passion or definition – until a crisp performance in the TV debate, during which she disclosed what had happened to her son and daughter as a means of rebutting Mr Wilson's charge that she was indifferent to the victims of crime.

Even Willie Brown, legendary

Democratic speaker of the California House, had begun to despair that she could persuade the state that she would govern very differently from Mr Wilson. Their confrontations, mostly conducted through a series of negative TV advertisements, tended to play to his populist issues not hers. California's economic recovery rendered her 65-page reform plan less relevant beyond her turning conventional political rhetoric on its head by charging that he was "just

### The Huffington problem is partly his own history of underachievement, but mostly concerns his wife

another tax and spend Republican". As for the extraordinary Senate race, a shorthand version would go something like this. Michael Huffington moves from Texas and in 1992 becomes the congressman for Santa Barbara by spending the most money ever (over \$5m) in an election for the House. Ten months later, after a record conspicuous for total invisibility, he announces that he will spend what it takes to defeat Ms Feinstein. Willie Brown recalls that, on learning how much (upwards of \$20m), he phoned the senator and said "Dianne, you've got a problem". He is proved right as the Fein-

stein lead dwindles in the face of an advertising onslaught with one central theme: "Feinstein – a career politician who'll say or do anything to stay in office." Mr Huffington does not appear to stand for anything beyond a vague conviction that the volunteer spirit will enable the country to do away with welfare. He rarely gives interviews or, until this week, appears much in public, but the polls show that Californians are unconcerned if this is how a rich man wants to spend his money – it is his, after all, and Ms Feinstein is not exactly poor.

But, bit by bit, the local and national media unearth the Huffington problem, which is partly his own history of underachievement, spiced by suggestions that he has evaded California income tax, but mostly concerns his wife. She is the former Arianna Stassinopoulos, well known in social and literary circles in her Cambridge and London days.

Not only is her husband seen as her puppet (the "host body" for her own ambitions, as the Los Angeles Times put it), but it also comes out she is, or was, a devotee of a New Age guru by the name of John-Roger, who recovered from a bout with kidney stones and pronounced himself more powerful than Jesus Christ. She holds strange orchestrated salons in Washington, in which guests find their thoughts recorded on tape. She fires campaign aides at will, or she leaves in protest at her control. She claims to do charity work at charities which say they have hardly ever seen her.

All this and much more has been gleefully reported in the media and by cartoonists like Garry Trudeau, creator of the *Dooniesbury* strip. In Willie Brown's opinion, *Dooniesbury's* "empty suit" – which is how Mr Huffington is drawn – has instantly fixed all the real problems of a disorganised and depressed Feinstein campaign.

Like Governor Wilson, she would rather not run on personality, which is a bit dour and short-tempered, but on a record which is distinctly respectable, both as mayor of San Francisco and in the Senate. Her finest legislative hour came in the destructive final hours of Congress two weeks ago, when she single-handedly rescued a bill protecting Californian deserts. Still, she has been forced into negative advertising of her own and to devote many hours to private fund-raising, rather than public campaigning.

But she is not home and free yet. Voter turn-out will be low, which favours the more energised Republicans. The lack of enthusiasm for Kathleen Brown, unless reversed in the final weeks, could drag down Democratic candidates state-wide. So may disaffection with President Bill Clinton, though polls find his standing in California higher than in most states. However, the national Republican leadership has not rallied to Mr Huffington, as it has to Oliver North in Virginia, preferring to concentrate efforts in California congressional races, where at least five Democratic incumbents are seriously up against it.

One final element of perspective must be noted. For all the ubiquity of election advertising, the political campaigns are still only the second biggest story in California, behind the O.J. Simpson trial and its extraordinary out-of-court activities. Only if Judge Lance Ito were to lock away both jury and media would the politicians have the stage to themselves.

## MAN IN THE NEWS: Ian Greer

### Doyen of the lobbyists

It is a relaxed and convivial scene. About 20 men and women linger over after-dinner coffee and drinks in a private room in the most exclusive restaurant in Christchurch, a sleepy and well-beeled town on England's south coast. They include some of the UK's best-known political journalists. It is the eve of the Conservative party conference in Bournemouth, a few miles away.

An impeccably dressed and dark-browed man slips easily from conversation to conversation with practised grace. Discreetly attentive to his guests' requirements, he exchanges views on the main political issues of the day with knowledgeable affability. Mr Ian Greer is to his element.

Mr Greer is the doyen of UK political lobbyists. A spy 61, he and his firm, Ian Greer Associates, have been the driving force behind the rapid growth of professional lobbying in Britain.

Yet earlier this week, reports in *The Guardian* newspaper linked IGA to a new "cash for questions" controversy involving alleged payments to MPs for tabling parliamentary questions.

Mr Greer has strenuously denied the allegation that the firm acted as a conduit to channel money from Mr Mohamed Fayed, owner of Harrods, to two Tory MPs during the battle for control of London's premier department store in the late 1980s. He has served a writ on *The Guardian*.

But the affair has prompted the resignation of one junior minister and placed a question mark over the career of another.

It is all a long way from 1968, when Mr Greer – once a Conservative party agent – helped set up Russell Greer, his first public rela-

tions venture. At that time, he found little demand among industrialists for his insights into Whitehall decision-making. The firm became primarily a financial PR specialist. Mr Greer eventually sold his shareholding to other directors.

When he formed IGA in 1981, business was waking up to the benefits of the services a specialist political lobbyist could provide. Since then, the industry has grown rapidly, from next to nothing 20 years ago to a business with an estimated annual turnover of £20m today. Its influence has become pervasive: the work of lobbyists is discernible behind the scenes almost whenever an important government decision is in the process of being made.

From the government's legislative plans to politically sensitive take-over bids and the contents of the Budget, lobbyists like Mr Greer will be beavering away on behalf of clients, seeking early warning of forthcoming events and trying to shape decisions to their best advantage.

IGA lobbied actively on Mr Fayed's behalf for a number of years in the late 1980s in return for an annual fee of around £50,000 – about the going rate. It monitored Whitehall documents for him for a further period – a service that would typically command a fee of £10,000-£12,000 per annum.

The signs are that IGA will have to work hard to retain its pre-eminent position among professional lobbyists. Its blue-clip client list includes British Airways, Philip Morris, the government of Taiwan and Channel Four Television. But one client has already indicated it is considering dispensing with the firm's services, and predicted the future could be "very damaging" for IGA's business.



The new allegations could not have come at a more sensitive time for the lobbying business. The unfavourable publicity has increased scrutiny of its activities and demands for tighter controls.

Lobbyists have reacted by taking steps to regulate themselves more effectively, while renewing long-repeated calls for Parliament to draw up a statutory code of practice. Five firms, including IGA, recently founded a trade association and launched a code of conduct banning all financial links with MPs. Mr Greer came out in favour of statutory regulation as long ago as 1985.

Even before the recent bad publicity, specialist firms such as IGA had been under pressure. Since the recession in the early 1990s, clients have increasingly tended to manage their public relations operations in-house and to hire outside consultants for only short-term projects.

In addition, a new breed of practitioner is advising organisations on how to do their own lobbying. One

of the new breed, Mr Charles Clarke, once a top aide to former Labour party leader Mr Neil Kinnock, argues: "Too many lobby companies claim that only they understand the machinery of Whitehall, Westminster or Brussels power." He accuses them of building up "the mystique of politics" to get commissions.

While Mr Greer acknowledges that lobbying once had such mystique, he contends this has long disappeared. He says Mr Clarke is "out of date, poor man".

Nevertheless, Mr Greer is likely to need all his tenacity and ingenuity to maintain the steady growth of his company – which now has about 50 employees, including many former aides to top politicians, and an annual turnover of £3.5m.

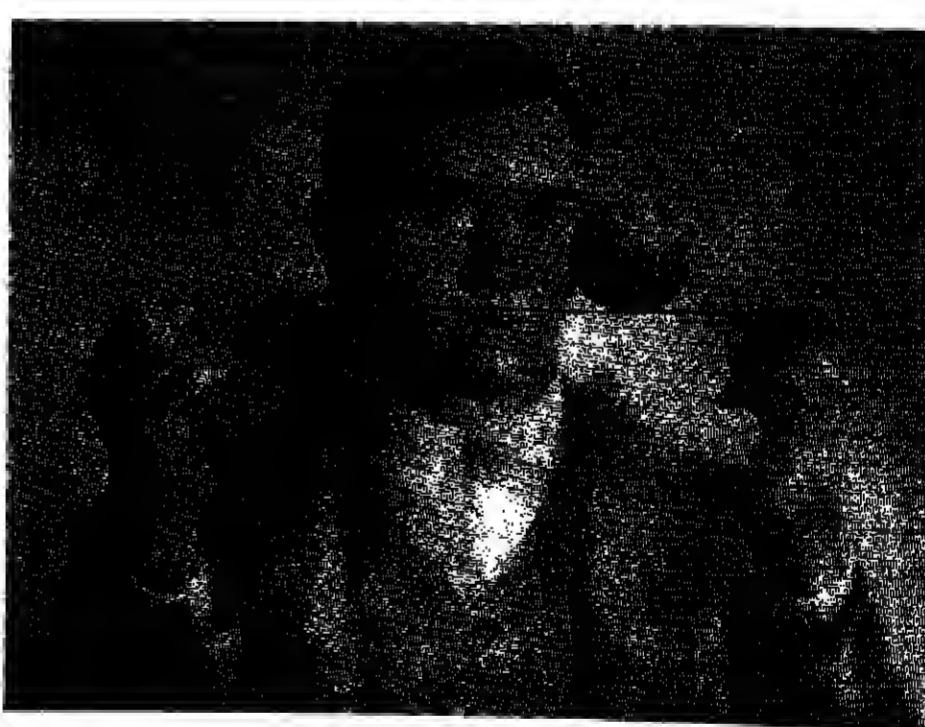
Until recently, Mr Greer had managed, for the most part, to avoid publicity, popping up only sporadically in headlines. In 1990, he told MPs that he had made six payments to three MPs over the previous five years for introducing business. Later that year, he used his Daimler to chauffeur Mr John Major to an engagement during his successful campaign for the Tory party leadership.

The closeness of his ties with the prime minister was underlined when Mr Major, along with a number of other cabinet ministers, attended IGA's 10th anniversary celebrations three years ago.

But these days, with the Tories trailing in the polls, it makes sound business sense for IGA to be even-handed in its relations with the main political parties. Earlier this year, the firm paid for the drinks at a reception for some Labour European election candidates at London's Café Royal.

As Mr Greer walks Humphrey, his poodle, in Richmond Park today, he could be forgiven for feeling all of his 61 years. Thoughts of retirement are far from his mind, however. "Good God, no! What am I going to do?" he exclaims.

David Owen



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# A nation desperate for relief

Iraqis' collective morale may never have sunk so low, says Mark Nicholson

Nothing demonstrates Iraq's isolation and deepening impoverishment more starkly than the 1,000km desert highway that links Baghdad to Amman in Jordan.

Traffic along the three-lane motorway, which has been Iraq's main link with the world since flights were banned by the UN, has thinned to a dribble of cars and an occasional truck. The country has run out of the means to afford the import of food and medicines that the UN permits. And the traffic that does have the highway is prey to highwaymen.

After 12 hours travelling Iraq's exposed, empty lifeline, vehicles reach the anti-aircraft batteries of Baghdad's approaches. The highway then opens on to the busy boulevards of a capital strewn with mighty monuments and buildings all in tribute to President Saddam Hussein and his ambition to make Iraq an Arab superpower.

In spite of four years of sanctions, Baghdad has kept up appearances. With dogged ingenuity, the Iraqis have rebuilt almost everything the 70,000-80,000 tonnes of allied bombs destroyed during the Gulf war in 1991. They have clipped away broken concrete to recover reinforcing rods. They have cannibalised spare parts. And they have rebuilt Iraq's main telecommunications, power, water, sewage and road networks. Mr Saddam has even had a new communications tower built, claimed to be the Middle East's tallest structure, and is planning what officials call "the biggest mosque in the world". The Saddam mosque, naturally.

Iraqis are proud of this rebirth, whatever they think about their leader - something few Iraqis risk venturing to strangers. "We hear all about rebuilding Lebanon, rebuilding Kuwait - no one ever wrote about how we rebuilt Iraq, without any foreign money or the original plans of the foreign manufacturers," said one Iraqi electrician. "Do you know we

rebuilt our earth station? More than 100,000 fragments, all put back together."

But towers, mosques and earth stations cannot hide the clear plunge in Iraqis' living conditions in the past few months. As the same Iraqi put it: "Sanctions are hurting now. The first, second, third years - then maybe we were bluffing. It was for the foreign media, our suffering. But now it hurts."

There are plenty of signs that Iraq has reached a critical stage. Food supplies are perilously short. Iraq imported 70 per cent of its food, at an annual cost of \$1.1bn, before the war. The government says it is now spending an annual \$700m on food, and cannot do that for much longer. Last month it halved the basic rations of sugar, oil, rice and flour that every Iraqi has been entitled to since 1990. This year's harvest is down by a third on last year's poor crop. Farmers have not been able to get pesticides or fertilisers and, after four years' cropping without fallow, have leached their soil, say UN officials.

Rations only met 70 per cent of basic nutritional needs, before the cuts. Hence the rise in the number of children with stomachs bloated by malnutrition appearing in Baghdad's hospital beds. Doctors at the Saddam Children's Hospital say that so far this year they have admitted 500 children with marasmus, a severe form of malnutrition, compared with about 65 a year before the embargo. They are also critically short of drugs.

Food prices have soared. Two dozen eggs or a kilo of lamb costs 100,000, about half an average government employee's monthly pay. One school teacher, buying an 1800g tin of baby-milk powder in the Shorjah souk, said this represented a third of her monthly income. "It's all the money I have, so I must spend it for my children," she said. "Of course we can't manage."

It is Iraq's salaried classes which are worst hit. Of Baghdad's 1m mid-



Iraqis buying drugs at a state-run pharmacy in Baghdad, where the UN-imposed embargo is causing acute hardship

die-class Christians, more than 300,000 are thought to have fled since 1991. The government is trying to staunch the flow. Dina, a 23-year-old secretary, says she qualified as a petrochemical engineer at Baghdad university, but has not been granted her degree papers. "Without it they know I can't get a job overseas," she says, adding that one college mate, a mechanical engineer, has resorted to selling cigarettes by the roadside for a living. Baghdad's souks are full of people selling the family silver - literally.

The Iraqi dinar has become funny money - locals refer to it simply as "paper". Hard economic data are rare, but the government estimates that prices have risen by 5,000 per cent since 1990. Exchange a \$100 bill in Baghdad and you receive a 15cm bundle of dinars. Banks ferry money inside branches in supermarket trolleys and receive truck deliveries of notes each morning. The few who are making money out of sanctions, such as spare

parts dealers, smugglers and the Baghdad-Amman taxi drivers in their hulking GMC Suburbans, buy their cars and houses with 50kg sack-loads of dinars.

A grim pall has settled over Baghdad. The city's restaurants are dark and empty. Public drinking has been banned. A rise in crime and low-level graft, once almost absent, and army desertions has seen the government resort to the severing of hands, feet or ears by way of punishment.

But while Iraqis' collective morale may never have sunk so low, there are few signs that this is coalescing into any articulated, let alone organised, opposition to Mr Saddam. Iraqis are keeping their private feelings private. "Even if Saddam has lost support and there's no doubt many hate Saddam - people cannot react because they fear the regime," says a diplomat. Another suggests that with "one in 20 working for the mukhabarat (secret police), at a conservative guess", it is hard to assess what political forces are stirring.

No one wholly rules out a palace coup from within Mr Saddam's al-Takrit clan elite, or a rising of disgruntled officers. But neither seems likely. And if either occurred, it would come out of the blue even for the most plugged-in observers.

The view from Baghdad is that Mr Saddam is staying, whatever the US, the UK and the Iraqi opposition may hope.

## New corporate investors threaten the traditional Lloyd's Name, says Ralph Atkins

### Endangered species

Having lost "an astonishingly large sum of money" at Lloyd's of London, Mr Glenie Joel, a 65-year-old retired soldier, is reluctant to offer financial advice. But he does have one tip: "I certainly wouldn't suggest that anyone went into Lloyd's."

In the past, becoming a Name at Lloyd's, as Mr Joel did in 1983, appeared an attractive investment with considerable tax advantages. Today, with the insurance market having incurred enormous losses, the number of Names is shrinking rapidly. With the arrival at Lloyd's of increasing numbers of corporate investors, the future of the traditional Name looks still less certain.

The introduction into Lloyd's of capital from companies rather than individuals should take a step forward in the next few weeks when Wellington Underwriting announces that it has capital in place for a UK stock-market listing. By planning company to invest in a narrow range of Lloyd's insurance syndicates, it will be the closest a listed company has come to mimicking the role of individual Names in providing capital to underwrite insurance policies.

There is one 1991 special distinction, however, 1994. Whereas Names in 1994 wrote 28,019 syndicates, the syndicates on the 1994 list were valued at 10,280, 11,018, 10,956, 11,070, 11,082, 10,046, 10,537, 10,578, 10,897.

Source: Lloyd's

over, the high losses of corporate investors are capped.

The emergence of the new listed Lloyd's companies raises the question of why prudent investors should want to invest again in Lloyd's on an unlimited basis. "Unlimited liability is going to go," says Mr John Mays of the Merrett Names Association, a group representing other Names who have lost money.

Unlimited liability offers high gearing - Names can underwrite policies paying premiums up to five times the value of their investment. In good years, this gearing level can mean high profits. However, the downside is illustrated by the fate of thousands of Feltrim and Gooda Walker Names, who have lost a total of more than £1bn and are chasing compensation through the courts.

Even without Lloyd's recent troubles, the traditional Name looked anachronistic. Some in the industry believe that unlimited liability is legal nonsense because nobody has unlimited assets.

At the same time, the organisational structure of Lloyd's - developed in the 17th century to provide simple marine insurance policies - is unlikely to be appropriate in an increasingly competitive market.

The tax advantages of becoming a UK Name have also diminished as income tax rates have fallen. Names could offset losses against marginal tax rates as high as 99 per cent in the late 1970s, and 60 per cent in the mid-1980s when Lloyd's membership was growing rapidly. With a top tax rate today of 40 per cent, the attraction has fallen.

Tax benefits remain: for Barry Riley: Weekend FT I

## Louise Kehoe on the commercial appeal of 'virtual shopping malls'

### The armchair shopper

A giant shopping centre will soon be built right on your doorstep. There will be hundreds of stores, banks, a supermarket, car dealerships, billboards - all within sight of your living-room armchair.

But don't rush to organise a protest. There will be no concrete poured in the construction of this mega-mall. It is a "virtual" shopping centre, just a few seconds down the information superhighway.

Electronic shopping centres are proliferating as retailers spot the chance to create a direct, low-cost marketing channel, to a fast-growing and predominantly affluent group of consumers - home-computer users.

More than a third of all US households now have a personal computer and 12 per cent - approximately 11m people - are equipped with a modem that allows them access via the telephone to the electronic data networks. Among US households with an annual income exceeding \$50,000, the percentage of "net travellers" - users of such networks - rises to 27 per cent.

This level of access has prompted a change into electronic shopping, led by commercial networks such as CompuServe, America Online and Prodigy. They now have more than 5m subscribers who use their on-line discussion groups, live chat "rooms" and news services, as well as electronic shopping.

Each has an "electronic mall", with more than 100 stores selling products from a Brooks Brothers suit to honey-baked ham.

The Internet - a global web of computer networks with an estimated 25m-30m users - is also going commercial. Last month, Home Shopping Network, which operates the Home Shopping cable TV channel, acquired Internet Shop-

ping Network (ISN), a fledgling Silicon Valley company that began selling computer products on the Internet five months ago.

"It is a bold step towards opening up a huge new market," says Mr Randy Adams, founder of ISN. Home Shopping is planning "a major push into the digital environment, a first step towards interactive television", he says.

With distribution and billing facilities already in place, Home Shopping Network is poised to create the first large-scale electronic shopping service on the Internet. Already there are dozens of smaller retailers on the Internet. Merchants from Palo Alto, in California's Silicon Valley, for example, have posted listings of their wares while the city's restaurants provide menus on-line.

For consumers, the main appeal of on-line shopping is convenience. Electronic stores are open 24 hours a day, seven days a week. The services draw "too busy, two-income families", say the electronic merchants.

Most of the computer shopping services available today take the form of product lists with detailed descriptions of the merchandise and discount prices. For people who know what they want - a particular brand of clothing or a specific model of household appliance - on-line shopping is a quick way to find a bargain. Without even a picture of the product, however, it is hard to imagine buying an outfit for a special occasion or a piece of furniture from an on-line service.

But multimedia computers



are beginning to make electronic shopping much more interesting. Industry analysts predict that on-line sales of goods and services will mushroom into a multi-billion dollar industry over the next three years as the technology becomes more widely available.

A high-performance multimedia PC (now selling in the US for about \$2,500) with a fast modem can handle graphics, audio and video clips, giving shoppers a much richer view of the products available. Multimedia also expands the range of goods and services that can be marketed effectively on-line.

For instance, the Global Net-

work Navigator, a free Internet service provided by O'Reilly & Associates, a California publishing group, has established a "travel resources centre". Users can watch a video clip of the delights of a holiday resort, read travel articles, join a discussion group where people share travel experiences or check weather forecasts.

Electronic stores are open all day and attract 'too busy, two-income families'.

Even with a fast modem, however, on-line access to multimedia services through the telephone network can be tediously slow. A compromise approach that is gaining popularity involves publishing a multimedia catalogue on a CD-Rom disc which carries the

images and sound. Updates on prices and availability, as well as ordering, are available on-line.

"The problem with the on-line world today is that the technology is long in the tooth," says Mr Stephen Tomlin, vice-president in charge of interactive technology development at QVC, Home Shopping Network's rival in the cable TV shopping market.

"To be a good merchant you have to have a rich interaction with the customer - show the merchandise, demonstrate its features and have a real dialogue. We are limited by current modem speeds," says Mr Tomlin.

Yet electronic shopping may be on the brink of a technology breakthrough that could give "virtual" shopping malls a competitive edge on the real

thing. The latest computer network technology for electronic commerce provides "intelligent assistants" - computer programs that travel the data networks in search of information, or products, at the behest of their owners.

AT&T, the telecoms group, recently launched PersonalLink network service, the first commercial application of this technology. Using software developed by eShop, a California software venture, PersonalLink will create a "market square" with electronic shopping assistants to help subscribers browse, select and make purchases.

These "cyberpersonas" will get to know your interests and tastes, what sports you enjoy, your shoe size, your spending habits and more. Retailers will provide these "electronic assistants" to help you to make your purchases.

You might also want to create your own electronic assistant, who will look through several electronic stores to find what you need at the best available price.

These assistants will emulate the role of the high-street tailor who knew your measurements, the corner grocer who used to deliver a regular weekly order to your home, or the saleswoman who helped you to select Christmas gifts.

Many retailers see these developments as an opportunity to experiment in the brave new world of "virtual" shopping before it becomes a 21st century mass consumer service on "interactive television".

"It makes sense to get into the game, to understand what is going on," says Mr Tomlin.

So when are they going to start building that virtual shopping centre?

"It's not around the corner, but there is no doubt that it is going to happen," says Mr Adams. "We are young enough to wait."

## Unsubstantiated failures

From Mr Barry Wither: Sir, Michael Hammer, ("No need for excuses", October 5) writing of re-engineering failure rates, says "... we find it breathtaking when the 70 per cent figure is cited as an authoritative statement of re-engineering's successes and failures because... one of us made it up".

Something similar happened for total quality management (TQM); there, the authoritative failure figure is 80 per cent. It was cited widely at the recent annual conference of the British Academy of Management, yet research conducted at Durham and University of Man-

chester Institute of Science and Technology clearly showed that the vast majority of TQM is still in place, and that less than 5 per cent of organisations seem totally dissatisfied.

For example, in a large survey of organisations in Scotland last year, fewer than 1 per cent of organisations with TQM expressed total dissatisfaction. Perhaps for new things it is always "open season".

Barry Wither, Director of postgraduate research, Durham University Business School, Mill Hill Lane, Durham DH1 1LB

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Road pricing would benefit UK economy

From Mr Andrew Tylecote: Sir, Charles Batchelor ("Dying romance of the open road", October 15) is too gloomy about the obstacles to a sea-change in transport policy.

Electronic road pricing will not damage the economy at all - on the contrary. The revenue raised will allow existing taxes to be lowered by the same amount; in fact, they could be

lowered more, if one chose, given the National Health Service savings from less pollution and accidents. And business (like individuals) will benefit greatly from the reduction in congestion - high-tech industry is more concerned with speed and reliability than with direct cost of transport.

Country-dwellers will not be disadvantaged if, as is sensible,

road pricing (and tight pollution control) is introduced first in urban areas - where the charges would always be higher.

Traffic-blighted communities can have their bypasses without serious damage to the countryside as long as they are narrow and discreet. At present that would be pointless, because drivers would scorn such an alternative; but if the

charge for going through were high enough, they would go round.

Road pricing is a win-win option; what is the government waiting for?

Andrew Tylecote, Professor of the Economics and Management of Technology, Sheffield University Management School, 9 Mappin Street, Sheffield S1 4DT

## Single mother 'refugees' welcome in Brussels

From Ms Eileen Adams: Sir, With reference to the article, "How to recognise the British ex-pat - executives who choose to live overseas" (Management, October 14), I (Management) was overlooked. This includes that dreaded breed known as single mothers obliged to live outside their country.

That much maligned little city of Brussels accepts such ex-pats, allowing single parents to work and care for their offspring with the aid of state-run crèches and nursery schools of very good quality, open at convenient hours (07.30 to 18.30) and contributed to in accordance with their salary.

In turn, such refugees are

fully contributing members of society and very happy to be part of a community which actually likes women and children, unlike life under a certain British government whose record on childcare leaves much to be desired.

Eileen Adams, Avenue des Gaulois 13, 1040 Brussels, Belgium

## Simple ID card would make for simpler life

From Mr Warren Edwards:

Sir, To my chagrin, my Spanish wife can enter and leave the UK with no more than a credit card-sized ID card. Furthermore, in many countries ID cards are essential for day-to-day business purposes, such as entering clients' offices. Passports have to be carried in lieu of ID cards.

To avoid the hassle of carrying a passport while abroad I have made myself an ID card. While consulting in South Africa last year, I stuck a photograph on my UK driving licence and my client over-stamped it and signed it.

I have had no problems with my "official" papers within and without the EU, though I have not yet tried it at a frontier.

May I suggest a cheap and speedy low-tech ID card - the back cover of the EU/UK passport. The blank reverse could contain the holder's signature, driving licence and National Insurance details.

## Globalisation still a route to sustainable success

From Mr Mark H J Radcliffe:

Sir, Ewan Macdonald, in her article "Masters of a fragmented universe" (October 17), says globalisation is now only being heard of from a handful of industries. That this is so is less to do with flawed acquisition strategies than to do with a failure to conceive and implement effectively.

There are dozens of industries where sustainable success, and financial return, will only be ultimately achieved by those who can get their global act together.

The reasons for some industries being susceptible to globalisation and others not range

from the need to recover high R&D or tooling costs (eg pharmaceutical and automotive), the utilisation of special knowledge or servicing skills (eg international plant construction and maintenance, or advisers such as auditors), or brand recognition and quality assurance (eg McDonald's).

We need to encourage and not discourage those businesses with the vision, courage and capability to do it, rather than taking a narrow, comfortable and parochial route.

Mark H J Radcliffe, The Malt House, Upton, Near Andover, Hampshire SP11 6TS

## EU is about domestic policy

From Mr Gary Tilley MEP:

Sir, Ian Davidson reproduces the misconception which is a flaw in the UK's attitude towards the EU - that European policy is a part of foreign policy and so is remote from everyday existence ("Blair's EU labours", October 12). The EU is about domestic policy

and should be interwoven in all our debates. Only then will the British get to grips with "Europe". It was presumably in recognition of this that Tony Blair gave his deputy, John Prescott, a European remit.

Gary Tilley, 16 Spring Lane, Radcliffe, Manchester M26 2TQ

## COMPANY NEWS: UK

## EVC institutions reject claims by Greenpeace

By Tim Burt

City institutions handling the imminent flotation of EVC International, Europe's largest PVC manufacturer, yesterday rejected claims that they had over-valued the company and failed to warn potential investors of environmental risks.

SG Warburg and Kleinwort Benson both accused Greenpeace, the environmental pressure group, of using selective and distorted facts in a circular urging fund managers to avoid the float, which is expected to value the company at more than £400m.

In its first-ever approach to institutional investors, Greenpeace criticised research on EVC by Warburg, joint global co-ordinator to the placing and open offer, and Kleinwort Benson, lead manager on the issue.

"A valuation of EVC made on the basis of these reports would, in our view, overstate the company's worth," Greenpeace said.

The Dutch-based company, jointly-owned by ICI and Enichem of Italy, will unveil its flotation price tag on Monday when its pathfinder prospectus is published.

Researchers at Greenpeace, however, warned that the newly floated company would face mounting environmental and safety pressures, prompted by concerns over dioxins and other toxic emissions during PVC production.

"The increasing availability of viable substitutes will erode traditional PVC markets in Europe and the US," the pressure group added.

Warburg, which described the environmental pressures on EVC as "limited", said it stood by its views and was confident of support from fund managers.

Officials at Kleinwort, meanwhile, said: "We have never glossed over the environmental controversy surrounding PVC. But our tentative view is that these pressures are past their worst."

Environmental concerns and restrictions on the use of PVC, particularly in packaging, contributed to combined pre-tax losses of £1.82m (£304m) at EVC over the last three years.

Although cost cutting is understood to have improved the joint venture's financial performance in recent months, ICI - which publishes its third-quarter results next Thursday - is expected to endure a £125m write-down on its EVC assets in the final quarter.

## Lucas pips Valeo to US components company

By Paul Cheeswright, Midlands Correspondent

Lucas Industries, the automotive and aerospace component manufacturer, has moved to strengthen its US business by agreeing to buy for \$87m (£54m) cash Lake Center Industries from Guy F. Atkinson of San Bruno, California.

This is \$7m more than the sum which Valeo, the French components manufacturer, said it would pay for the company. Valeo announced last Monday that it had reached agreement to buy LCI.

Atkinson and Lucas had been "talking over the last few weeks", Lucas said. The discussions continued despite the Valeo announcement, indicating that Atkinson had been playing one potential buyer off against the other.

Valeo said that it "had not accepted a new request on the part of Atkinson to increase the acquisition price and to modify certain essential conditions initially agreed." It would not therefore go ahead with the purchase.

Both Valeo and Lucas have been anxious to build up their presence in the US. Lucas, seeking to strengthen its core automotive and aerospace activities, will fit LCI into its automotive Body Systems business, which specialises in electronic systems used inside vehicles. Body Systems is one of the nine business areas Lucas has designated as central to its future.

LCI's specialty is the manufacture of control systems for heating and ventilation of vehicles, products which Lucas has not made.

The purchase will enhance its ability to offer complete in-vehicle electronic systems.

This year LCI expects sales of \$110m, rising to \$140m next year. In 1993 it had pre-tax profits of \$5.7m and net assets of \$23.2m. LCI works on eight sites and employs 1,370 people.

## Sphere board recommends bid rejection

By Bethan Hutton

The board of Sphere Investment Trust yesterday advised shareholders not to accept an offer from Dartmoor Investment Trust.

It recommended retaining the shares, or selling them in the market. Warrant holders were advised to accept a separate offer for their warrants.

Dartmoor is offering eight new income shares for every 25 Sphere income and residual capital shares. It has received provisional acceptance for more than 52 per cent of the shares, held by itself, its managers, Exeter, and Abnir Fund Managers.

Sphere's board said it did not believe this was a fair or reasonable offer for the shares, but acknowledged it was likely that the bid would become unconditional.

Its recommendation was based on assurances from Dartmoor that Sphere would continue to operate as a quoted trust, retaining the same managers, with a broadly equivalent portfolio to the past, until it was liquidated as scheduled, or rolled over into a successor trust.

## Demand from generators will slump in late 1990s, report predicts

## Value of coal assets questioned

The successful bidders for British Coal mines have offered far more than is being paid for coal assets on the international market, according to an analysis published yesterday.

The report in Coal UK, the Financial Times newsletter, predicts a slump in demand for coal from the electricity generators in the late 1990s. It will fuel questions over whether the bidders have paid too much and can sustain long-term profits.

The report casts doubts over the ability of RJB Mining, chosen as preferred bidder for all three English regions, to make significant profits after 1998, when existing contracts with the generators end.

After 1998, "it is difficult to believe that its margins will be sufficient to cover ongoing costs, the costs of closures and any leftovers from the bid".

Coal UK says that whether the bids are measured in pounds per tonne of reserves or pounds per tonne of saleable coal, the winning bidders for England and Wales are paying much more than has recently been paid for coal assets in other countries.

"Overseas investors would almost certainly look on British Coal as high cost and producing poor quality coal." RJB's 1990m bid equates to £1.54 per tonne of reserves and £28 per tonne for saleable coal.

The report says that only one international sale has been higher recently and that involved low sulphur mines.

"All other international deals were at less than £24 a tonne and the vast bulk at below £20."

The report forecasts that the English power market for coal is likely to be squeezed further following government decisions to allow new gas-fired power stations.

The English market could be below 25m tonnes by 2000, according to the analysis.

National Power and PowerGen, the two fossil-fuel generators, currently buy 30m tonnes a year. RJB has said it sees limited decline after 1998.

Mining (Scotland), the consortium in which Waverley

Milnag, Finance and Coal Investments have stakes, is believed to have offered £60m to become the preferred bidder for British Coal's Scottish mining assets.

This equates to £1.58 per tonne for the reserves and £12 a tonne for saleable coal.

"The latter figure is the only one that fits into the international perspective. The reserve valuation is way above comparable international deals which range from 20p to 40p per tonne."

Celtic Energy's estimated £95m tender for South Wales, which also has preferred bidder status, equates to £1.72 per tonne of reserves and £47.50 per tonne of saleable coal.

## F&amp;C share issue to raise £115m

By Bethan Hutton

Foreign & Colonial Emerging Markets Investment Trust is set to raise up to £115m of new capital with a C share issue.

Institutional investors have already spoken for 85m C shares at 100p during the placing stage, and a further 30m shares are available in a public offer opening on October 24. Demand has already exceeded

F&C's expectations; the group had expected to cap the issue at £70m.

The trust currently has assets of about £150m. The additional capital will make it the second largest general emerging markets trust, after Templeton Emerging Markets, which has assets of £500m.

According to figures from Smith New Court, the F&C trust was last week trading at

a package premium - taking both shares and warrants into account - to net asset value of 8.9 per cent, meaning that even after costs, the new issue should be a cheaper way to buy into the fund than acquiring shares in the market.

The trust's current asset allocation gives the heaviest weighting to Latin America (43 per cent) and Asia (37 per cent), with smaller amounts in

Europe, the Middle East and Africa. Figures from the Association of Investment Trust Companies place its share price performance second in its sector over three years to end September.

Dealing in the C shares is due to start on November 18, and their conversion into new ordinary shares and warrants will take place by March 31 1995.

## Aviation setback leaves Hunting down at £13.5m

By Christopher Price

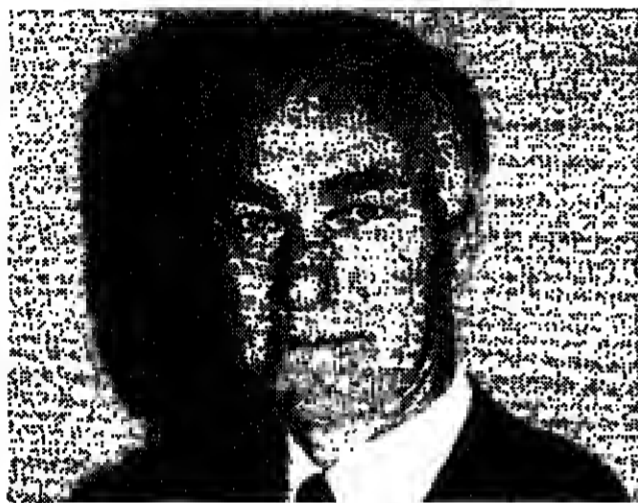
Tough trading conditions in the aviation business dented first half pre-tax profits at Hunting, which yesterday reported a 24 per cent decline from £17.7m to £13.5m - although last year's figure was flattened by a £5.8m contribution from the sale of a subsidiary.

At the operating level, profits from continuing operations were down 10 per cent from £18.3m to £16.5m.

Operating profits in the aviation division fell from £3.7m to £1.5m on turnover up 9 per cent at £51.1m (£74.7m). A lack of orders from both the civil and military aviation sides hit the group's overhauling and fitting business. Likewise, slack demand for the Saab 340 and BAe Jetstream 41 aircraft affected the company's interiors business.

On the defence side, operating profits rose 42 per cent to £7.4m (£5.2m) on turnover 77 per cent ahead at £223.8m (£126.7m). The figures were boosted by the first full interim contribution from the management contract to run the Atomic Weapons Establishment at Aldermaston. This included an operating profit of £2.5m.

Profits from the oil services business were hit by weak oil



Ken Miller: special circumstances affected performance this year

prices in the first quarter, declining 19 per cent to £7.6m (£9.4m). Turnover fell 17 per cent to £254.2m (£305.3m).

Group turnover advanced 10 per cent to £559.1m (£509.8m). Earnings per share fell from 8.3p to 4.6p. The interim dividend is maintained at 4p.

Despite the downturn, Mr Ken Miller, chief executive, was optimistic on the outlook for the group. "There have been special circumstances this year which have affected our performance. But the bene-

fits from our cost saving programme will come through next year, the outlook for the aviation business is more favourable, the defence business order book is good and there's more activity in the oil business."

The market took a dimmer view and the shares slipped 3p to 159p, their lowest point since December 1993. Analysts cut their profit forecasts for the year by about 15 per cent, with most settling in a range from £28m to £31m.

## NatWest signs Mondex cash card deal with Hongkong Bank

By John Gapper, Banking Editor

National Westminster Bank has made the first step in its attempt to establish global usage for its Mondex electronic cash card by selling the rights to franchise the card in several Asian countries to Hongkong & Shanghai Banking Corporation.

NatWest is also in talks with banks in Germany, France and the US to sell the rights to franchise and develop the use of the card in those countries.

In return it is offering them equity stakes in a new company that will control Mondex, in which NatWest will have a golden share.

NatWest is planning to test the card - which can be loaded by consumers with electronic cash units and used in shops to pay for goods and services - in Swindon next year. The British rights are held by NatWest in partnership with Midland Bank and British Telecom.

Hongkong Bank, which is a subsidiary of HSBC Holdings, has acquired the rights to franchise the card in Hong Kong, China, India, Indonesia, Macau, the Philippines, Singapore, Sri Lanka, Taiwan and Thailand. Hongkong Bank Malaysia will have rights in Malaysia.

Mr Bert Morris, deputy chief executive of NatWest, said that the bank was in talks with

about 30 banks in 115 countries.

Mr Morris said he believed NatWest would be able to charge UK consumers for the use of the card. "We have not taken any decision, as my inclination would be not to give it away. The banking industry has given far too many things away."

He said the agreement gave Hongkong Bank exclusive rights until 2003, but that NatWest was talking to other banks in south-east Asia.

NatWest wants to establish Mondex as the worldwide standard for cash cards. It uses a microchip to store cash units, and can be loaded at home with an adapted telephone.

## Rebel Barrs to oppose plans to enfranchise non-voting shares

By Richard Woffe

Mr Nicholas and Mr Robert Barr, the brothers who are attempting to unseat their uncle, Mr Malcolm Barr, as chairman of Barr & Wallace Arnold Trust, yesterday pledged to vote down the board's plans to enfranchise non-voting shares.

The brothers, who speak for 30 per cent of the voting shares, sent a letter to Hambros, the leisure and motor distribution group's financial advisers, stating their opposition to the board's resolution. The board needs a 76

per cent majority to succeed.

They also repeated their demands for the removal of Mr Malcolm Barr along with his chief executive, Mr John Parker, and his finance director, Mr Brian Small. A second meeting will vote on Mr Parker and Mr Small before December.

"This did not start out as a family feud," said Mr Nicholas Barr. "We tried to the best of our ability to persuade Malcolm Barr to take a graceful and dignified exit from his position on the board. He chose to have no interest in any of those proposals."

The board yesterday

declared its intention to continue with its EGM, and is expected to issue a document next week, which is thought to include an audited profit forecast, as well as details of the 1-for-1 scrip issue to compensate ordinary shareholders for the loss of voting control.

Ironically, enfranchisement is one of the rebels' principal proposals for modernising the company. The group's 10m non-voting shares are mainly owned by institutions.

Nicholas and Robert are the sons of Mr Stuart Barr, the managing director who died two years ago.

## Stagecoach £8.36m acquisition

Stagecoach Holdings, the bus and coach operator, is acquiring Cleveland Transit and the rest of Kingston Upon Hull Transport, which provides bus services in Middlesbrough, Stockton-on-Tees and Hull, in a £8.36m deal.

Undertakings to accept the agreed offer have been received in respect of 51 per cent of the shares in Cleveland, which holds 51 per cent of Kingston Transport.

The 359-for-200 offer values Cleveland at £7.7m and could involve the issue of 3.5m shares. There are 385p-a-share cash and loan note alternatives.

The 305,970 share offer for the outstanding

stake in Kingston Transport is worth £556,000. In the year to March 26 Cleveland reported pre-tax profits of £950,000 on turnover of £11.4m. Net assets at the period-end were £117,000 after writing off goodwill of about £1.2m.

The results included Kingston from December 10 in which time it had pre-tax profits of £50,000 on turnover of £2.4m.

Stagecoach said that Cleveland already had operating margins of 10 per cent.

Nonetheless, improved profits could be achieved with further investment in new vehicles and economies of scale from the enlarged group.

## High-Point loss little changed

The expected return to profitability at High-Point, the engineering and consultancy group, failed to materialise and there was a marginally increased full-year pre-tax loss of £442,000, against £440,000.

The shares fell 5p to 46p.

The figure, which Mr Peter Johnson, chairman, described as "disappointing", came from turnover of £43.2m (£48.6m) for the year to May 31. The 1993 loss was, however, struck after a profit of £985,000 on the disposal of discontinued operations.

Interest charges took £1.07m (£1.59m) as borrowings remained "unacceptably high". After tax of £118,000 (£2,000) losses per share deepened to 11.5p (£6p). The proposed dividend is maintained at 0.5p.

Air London lower

Turnover at Air London International, the charter broker, rose from £15.2m to £18.1m for the year to July 31.

However, pressure on margins and higher overheads, arising mainly from increased sales efforts, left pre-tax profits

13 per cent lower at £640,000, against £736,000.

Earnings per share dropped to 4.7p (£5.6p) but an unchanged recommended final dividend of 1.5p holds the total at 3.5p.

Mr Tony Mack, chairman, said that most progress had been shown by the executive aircraft charter operation, particularly in the second half.

Azlan statement

Azlan Group, the computer networking products distributor, said operating profits for the half year to September 30 would be in line with management expectations at about £1.2m.

Sales were expected to be £37.7m, with a gross profit margin of about 25 per cent. Trading had been slow in the UK in the first half of the year but overseas trading was strong and an improvement was expected in the second half.

Brit American Film

British & American Film Holdings, the investment company with small film production and distribution activities, reported pre-tax profits of £275,000 for the six months to June 30, against £218,000.

The increase was achieved on turnover of £239,000 (£275,000). The interim dividend goes up to 4.8p (£2.75p), payable from earnings of 18.48p (£14.29p).

payable from earnings of 18.48p (£14.29p).

Sir John Woolf, chairman, called on the Accounting Standards Board to review the impact of the introduction of FRS3 to counter "the unfortunate effect of introducing a significant element of unnecessary volatility to our results".

On a pre-FRS3 basis, the pre-tax loss amounted to £897,000 and earnings to 19.24p.

HG Smaller

Net asset value of the Hoare Govett Smaller Companies Index Investment Trust dropped by 5.5 per cent to 126.56p per share in the six months to September 30, against 133.92p at March 31.

Net available revenue increased to £883,136 (£636,939) and earnings per share came out at 1.33p (£2.23p). An unchanged interim dividend of 1p is declared.

R&M Geared

Net asset value of River & Mercantile Geared Capital & Income Trust 1999 dipped to 33.28p per preferred capital share as at September 30, against values of £6.63p at March 31 and 36.05p a year earlier.

Attributable revenue for the half year to end-September fell 16 per cent to £461,000

(£549,000) giving earnings of 3.25p (£3.92p) per income share.

The second interim dividend is maintained at 1.4p, making 2.8p to date, and the directors hope to pay a total of at least last year's 7.525p.

Ecu Trust

Net asset value per share of the Ecu Trust fell 6 per cent from 71.3p to 67p during the 12 months to June 30.

Net revenue for the year was £224,304 (£229,476) after an increased tax charge of £180,484 (£73,715). Earnings per share were 0.75p (£0.76p) and a single unchanged final dividend of 0.5p is proposed.

Govett Strategic

Net assets of Govett Strategic Investment Trust dropped from 288.07p to 271.14p per share in the year ended September 30.

Net available revenue was £6.68m (£7.03m) and earnings per share came to 6.78p (£7.16p).

Dividends announced

	Current payment	Date of payment	Corresponding dividend	Total for year	Total for year
Air London \$	1.8	Dec 8	1.8	3.5	3.5
Brit Amer Film	4.8	Nov 25	4.275	9.075	13.575
Hg-Pol	0.5	Dec 18	0.5	1.0	0.5
Hunting	4	Dec 18	4	8	10

Dividends shown per share net except where otherwise stated, \$USM stock.

The final dividend was 4.1p (same), for an unchanged total of 6.76p.

London American

London American Growth Trust ended the six months to September 30 with net asset value per share at 56.6p. This compared with 61.5p at the end of the year to March 31 1994 and 53.3p at the end of the previous financial year.

Total income declined to £63,000 (£80,000). Net losses were £344,000 (£392,000 profits), for losses per share of 0.38p (£0.36p earnings).

Holliday Chemical

Holliday Chemical Holdings, the specialty chemicals manufacturer, has acquired Malinkrodt's photo-chemical plant in Dieburg, Germany, for about \$8m (£5m) cash.

Some \$5m is payable on completion with the balance a year later.

## Hochtief stalks Holzmann stake

By Michael Lindemann in Bonn

Hochtief, Germany's second largest construction company, may try to get a controlling stake in Philipp Holzmann, if its larger rival does not co-operate with efforts to co-ordinate their foreign operations.

Mr Hans-Peter Keitel, Hochtief's chief executive, said his company would need a shareholding of about 40 per cent to control voting at Holzmann shareholder meetings where usually a maximum of 80 per cent of the shares are represented.

However, he said he would not push for a full merger of the two groups which would remain competitors in the German market.

In mid-September, Hochtief said it would raise its 18.7 per

cent in Holzmann by buying a further 10 per cent from BfG Bank. Mr Keitel said since then Holzmann had made what he called an "emotional" rejection of any ideas of co-operation.

Hochtief's increased stake is being reviewed by the Federal Cartel Office which is examining a range of different markets, from tunnel boring to bridge building, to see whether competition would be distorted.

The review is not likely to be completed until mid-January. However, if Hochtief wins approval to go over the key 25 per cent share threshold which allows it to block supervisory board decisions there are no reasons why Hochtief could not raise its stake to 49.9 per cent.

Hochtief is likely to be able to pick up the 5 per cent stake

held by Commerzbank, the group's house bank, but it is unclear where it will find the outstanding shares.

Deutsche Bank, with 25.9 per cent, is the largest of Holzmann's shareholders. Yesterday it refused to say whether it would sell any of its shares.

"We are observing the situation and must wait for signals from the monopolies authority," the bank said.

Holzmann said institutional investors held about 9 per cent of the company and that the balance was held by small shareholders, many of whom do not attend meetings.

Since Hochtief unveiled its strategy, Mr Lothar Mayer, Holzmann's chief executive, has said he wanted the company to remain independent. It is likely that he

will try to persuade Deutsche Bank not to sell its shares. He will argue that if Hochtief wins control it would give RWE, which owns Hochtief and is also the country's largest utility, a too powerful position in Germany.

Deutsche said earlier this year it would reduce its shareholdings in a number of German companies and use the money to buy stakes in international companies. It hinted that it did not regard its Holzmann holding as a strategic investment by refusing to participate in a rights issue last year.

Hochtief has a turnover of about DM1.8bn (\$1.2bn), less than Holzmann's DM12.4bn, but is considerably more profitable, reporting earnings last year of DM122m compared with Holzmann's DM106m.

## Volkswagen confirms ousting of director

By Andrew Fisher in Frankfurt

The ousting of Mr Werner Schmidt as Volkswagen's finance director was confirmed yesterday by the German car company. The group gave no reason for the widely expected decision which has been linked to heavy losses at VW's Seat subsidiary in Spain.

After a meeting of its supervisory board, the non-executive board which decides top management appointments, VW said Mr Schmidt, 62, would step down at the end of the year. He would continue to advise the company on a consultancy basis.

Last year, Seat nearly collapsed, making an unexpected loss of DM1.5bn (\$1.2bn). Seat's chairman, Mr Juan Antonio Diaz Alvarez, was sacked last autumn; the rest of the top management has since been replaced.

Mr Schmidt was head of VW's supervisory board at the time, although there has been no suggestion he was any more aware of Seat's problems than Mr Ferdinand Piëch, VW's chairman.

Mr Schmidt, with the group for 27 years (including 19 on the board), was not one of Mr Piëch's close associates. Relations have been cool since Mr Piëch became head of the group at the start of 1993. It appeared that his determination to remove Mr Schmidt, whose career has included spells as head of exports, chairman of VW in Brazil and head of Audi, the executive car subsidiary - was reinforced last month after a secret auditor's report by the Arthur Andersen consultancy concern on how the Seat losses occurred.

VW said yesterday it intended to implement recommendations by Arthur Andersen aimed at tightening up its financial controls. Following Mr Schmidt's departure, Mr Bruno Adelot will become board member for financial controlling and accounting and Mr Jens Neumann, the director responsible for group strategy, would add the group treasury function to his activities.

## American Brands lifted by cigarette operations

By Richard Tomkins in New York

A big increase in profits from cigarettes helped American Brands, the US consumer products group, lift net income 79 per cent to \$152m in the third quarter, the company reported yesterday.

Like Philip Morris, which reported earlier in the week, American Brands benefited from a favourable comparison with a year in which US cigarette makers were badly hit by a bout of price cutting in their domestic market.

American Tobacco, the group's cigarette manufacturing operation, contributed operating profits of \$49m compared with a loss of \$35m last

time. The prior year's losses included a \$30m restructuring provision.

Earlier this year, American Brands agreed to sell American Tobacco to BAT Industries of the UK, for \$1bn, but the sale is undergoing an anti-trust review by the Federal Trade Commission because BAT owns Brown & Williamson, the third biggest US tobacco group.

Group revenues rose 11 per cent to \$3.7bn and operating profits rose 39 per cent to \$445.4m. Earnings per share rose to 75 cents from 42 cents helped by a reduction in the tax charge to 42 per cent from 47 per cent.

Mr William Alley, chairman and chief executive, said the

company had experienced broad gains across most of its operations. Gallaher Tobacco, the UK's biggest cigarette company, increased its contribution by 5 per cent even though last year's third-quarter benefited from trade buying in advance of an August 1993 price increase.

Non-tobacco operations increased their contribution to operating profits by 6 per cent to a record \$182.5m.

The group saw double-digit increases from distilled spirits and from each of the businesses described by American Brands as long-term growth operations: hardware and home improvement products, office products and golfing equipment.

## Sapporo to end 11-year link with US brewer

By William Dawkins in Tokyo

Sapporo Breweries, the third largest of Japan's four main beer companies, plans to end its 11-year-old distribution deal with Miller Brewing of the US. Sapporo wishes to end its exclusive partnership with Miller, a unit of Philip Morris, to free itself to distribute a wider range of foreign beers, the Japanese brewer said.

The present contract restricts Sapporo to selling Miller's and no other foreign beer, a disadvantage to the Japanese partner at a time when beer imports to Japan are rising fast. The pair had come to an amicable agreement to end their partnership within the year, Sapporo said.

Foreign beer sales in Japan multiplied five-fold in the first half, propelled by the ease with which the yen's strength allows them to undercut Japanese beer prices. There has been a shift in consumer taste, and decline in brand loyalty.

Even after their fast growth, beer imports take only a 3 per cent market share, compared with Sapporo's 18.5 per cent. But the growth in competition has been enough to trigger a beer price war and oblige brewers to review their distribution and production arrangements.

## Japan's brokers stall at halfway

By Eniko Teraszono in Tokyo

Interim earnings at Japan's leading brokers were held back by lower-than-expected stock market volume which resulted in reduced stock broking commissions.

Most securities houses had expected average daily turnover to total about ¥400bn (\$4.1bn) for the first half to September, but brokerage officials said the actual figure had been about ¥350bn, down 15 per cent from a year earlier.

They also blamed the reduction in bond trading profits due to the bond market fall earlier this year.

In spite of reduced costs, the fall in revenues hit all brokers, with only four - Nomura Securities, Daiwa Securities, Nikko Securities and Kosei Securities - out of the top 20 managing to avoid losses on the after-tax profit level.

Salomon Brothers in Tokyo said equity brokerage commissions declined by 20.4 per cent for the top 20 brokers. Underwriting commissions were up 38.2 per cent while gains from stock and bond trading fell 60 per cent.

At Nomura, the industry leader, income from stock brokerage commission fell 14.6 per cent to ¥51.2bn, while under-

writing commissions rose 3.8 times to ¥11.5m thanks to active convertible bond issuance.

For the full year to next March, the company expects a 38 per cent rise in recurring profits to ¥70bn on a 3 per cent increase in operating income to ¥410bn.

Daiwa's stock brokerage commission income fell 25.1 per cent to ¥36.8bn and stock underwriting commission income fell 11.4 per cent to ¥2.6bn.

For the full year, the company forecasts a 23 per cent decline in recurring profits to ¥40bn and an 8 per cent fall in revenue to ¥273bn.

Nikko saw its stock brokerage commissions fall 20.8 per cent to ¥38.7bn but stock underwriting commissions rose 2.4 times to ¥7.3bn.

The group expects recurring profits to fall 14 per cent for the full year to ¥30bn on a 7 per cent decline in operating income to ¥360bn.

Yamaichi posted a 22.7 per cent drop in stock brokerage commissions while stock

underwriting commissions rose 3.6 times.

For the full year, the company expects a 27 per cent fall in recurring profits to ¥13bn and a 3 per cent reduction in operating revenues to ¥228bn.

The smaller brokers, which rely more heavily on stock brokerage commissions from retail clients were especially hard hit by the sluggish market volume and the inactivity among individual investors.

Sanyo Securities, which faced an erosion of its market share posted a recurring loss of ¥13.5bn, while New Japan, Wako and Otsuka which managed to return to the black for the year to last March, fell back into the red.

Of the 10 second-tier brokers, only Sanyo and Kanakura are forecasting losses on the recurring level. However, since the estimates are based on projections that average daily turnover will total ¥400bn-¥450bn, analysts expect many of the other smaller brokers may not achieve their forecasts. See Lex

### Big four brokers' results

	Yen (bn)	%	Yen (bn)	%
	revenue	change	recurring profits	change
Nomura	190.9	-3.5	22.5	-11.3
Daiwa	124.9	-21.1	7.3	-79.4
Nikko	116.8	-15.1	2.3	-61.9
Yamaichi	100.3	-17.1	-0.7	-

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	Home 120	6.80	6.80	5.30	5.30	1000	20 days notice, 10% discount on 1000
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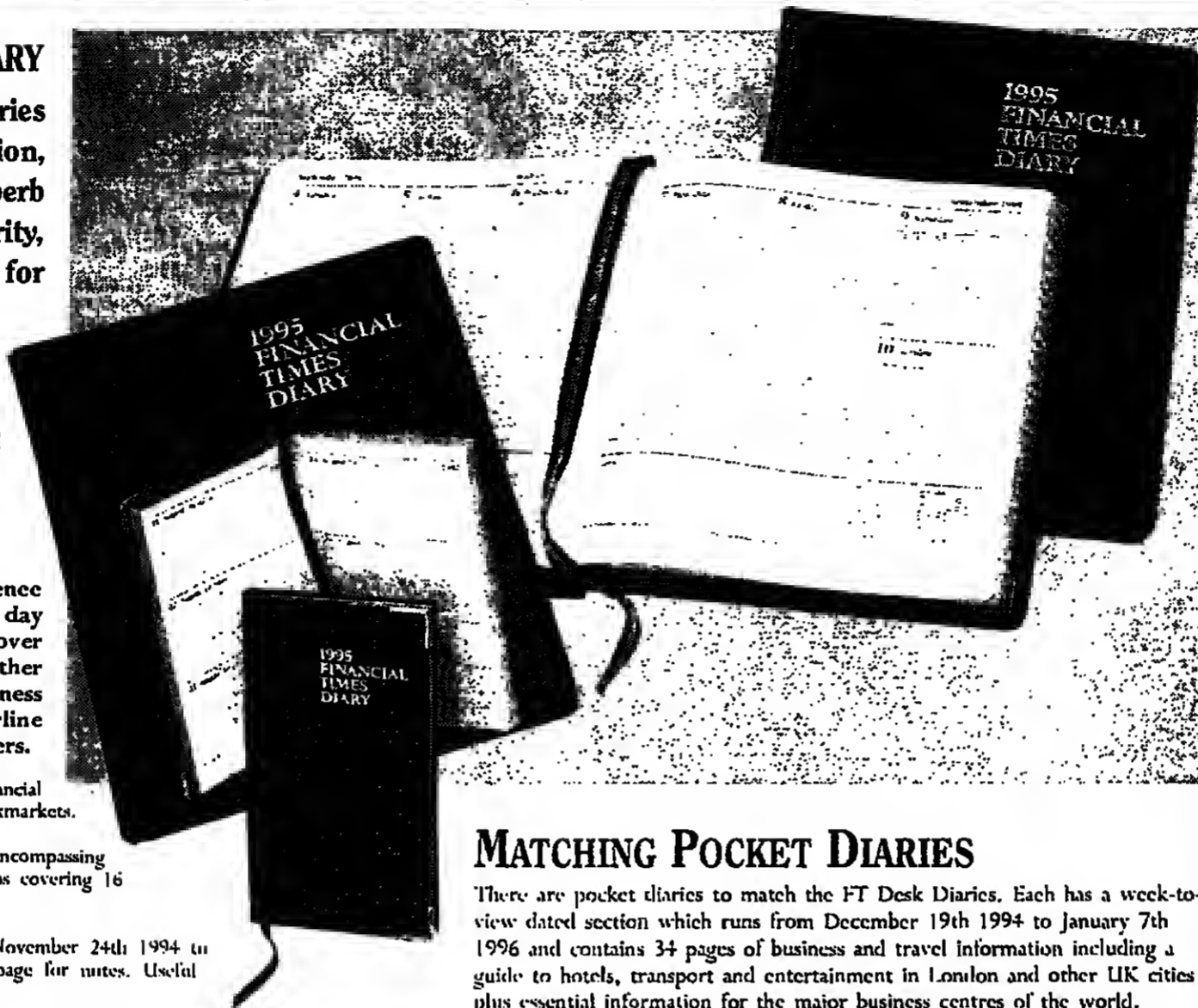
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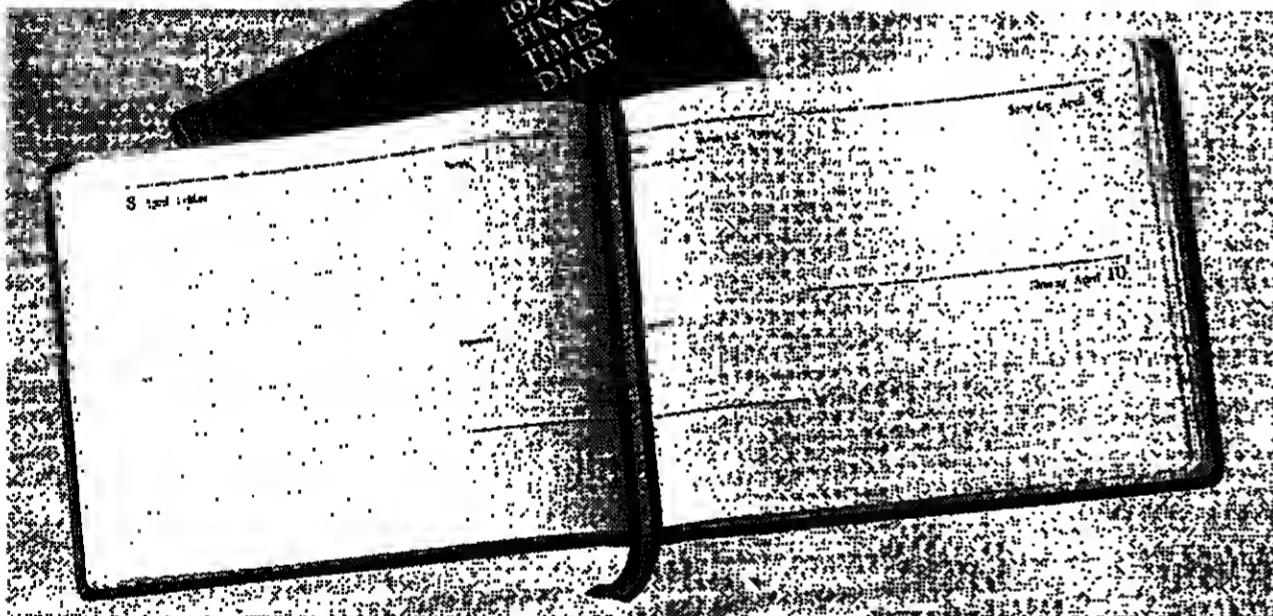
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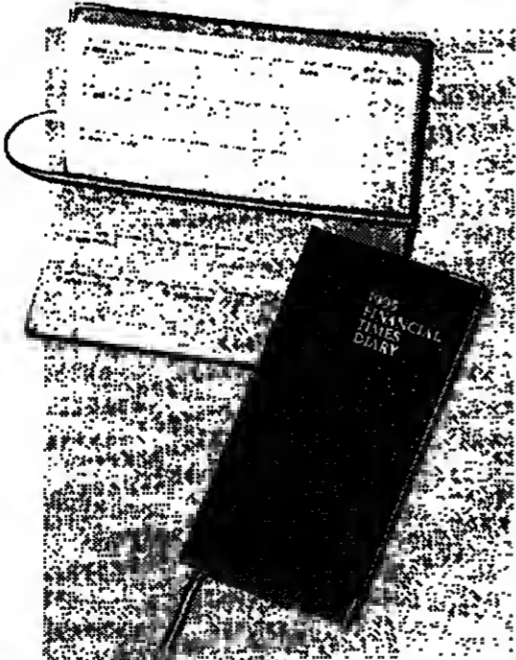
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## WORLD STOCK MARKETS

## AMERICA

## New weakness of \$ weighs on Dow

## Wall Street

US stocks suffered more losses yesterday morning as investors nervously eyed the worrisome developments in the bond and foreign exchange markets. *Wall Street Journal* writes Frank McGurty in New York.

By 1 pm, the Dow Jones Industrial Average was 2.88 lower at 3,888.77, while the more broadly based Standard & Poor's 500 was down 2.11 at 464.74.

But the level of the declines obscured the breadth of the market's downturn. On the NYSE, losers outpaced gainers by more than two to one. Volume was a moderate 179m shares by early afternoon.

In other leading markets, the Nasdaq composite was 2.47 weaker at 765.77, while the American composite was off

2.05 at 455.71.

The Dow Industrials opened sharply lower, following through on the previous session's 25-point downturn. Renewed weakness in the dollar, which was hovering near its postwar lows against the yen and D-mark, inspired a new round of selling on the US Treasury market.

That pushed the yield on the benchmark 30-year government issue through 8.00 per cent, an important technical barrier, where it remained for most of the morning. Near midday, bonds recovered a little and yields receded.

The slight improvement enabled stocks to retrace some of their losses, but the majority remained mired in negative territory with a sour mood dominating. By early afternoon, the Dow Industrials were near the day's worst levels.

The stream of third-quarter earnings news which had pushed Wall Street earlier this week slowed yesterday. Mobil, the first of the big oil groups to release results, posted net income of \$1.93 a share, about 7 cents above the consensus forecast of analysts, and the stock added just 1/4 to \$21.14.

General Motors continued to suffer the consequences of a disappointing third-quarter performance, revealed on Thursday. The car maker's shares fell a further 1/4 to \$41.14 after Salomon Brothers cut its full-year earnings estimate for the company.

Kimberly-Clark dropped a further 1/4 to \$50.75, bringing its losses over two days to nearly 12 per cent. Yesterday Brown Brothers Harriman downgraded the stock, citing lower-than-expected earnings

in Europe.

In the technology sector, Silicon Graphics was a bright spot: its stock jumped 3/4 to \$26.00 on news that its net income improved nearly 60 per cent from the 1993 quarter. On the Nasdaq, Summit Technology was marked up 3/4 to \$38 after a Food and Drug Administration advisory committee issued a conditional recommendation to approve the company's latest treatment for short-sightedness.

Snapple Beverage surged 3/4 to \$14.00 on speculation that either Coca-Cola or PepsiCo would launch a takeover bid.

## Canada

Toronto dipped at midday, pressured by easing consumer products, precious metals and transportation stocks, but trading lower than expected earnings

composite index lost 17.83 to 4,501.94 at noon in turnover of 20.1m shares. The consumer products group fell 1.0 per cent as Seagram eased 3/4 to C\$41.14 and Cott fell C\$1 to C\$15.04 after a downgrade by Lehman Brothers.

The transportation sector lost 0.8 per cent and precious metals were 0.7 per cent lower.

## Brazil

Shares in São Paulo were down 3.6 per cent at midsession as investors reacted to the government's announcement on Thursday of new measures aimed at tackling inflation and restricting the inflow of foreign funds into Brazil.

The Bovespa index was off 1,710 at 45,335 by 1 pm in light turnover of R\$153m (\$179.4m).

Telebras preferred dropped 4.7 per cent to R\$40.

## Structure and finances depress Madrid stocks

Tom Burns analyses the bolsa's lack of enthusiasm

The fact that the Spanish market has fallen this year is of comparatively little concern to investors who have seen the same story elsewhere in Europe. What worries them is its slow, and apparently unenthusiastic response when other bourses are on the recovery track.

One reason is that Madrid's bolsa has been pushed back to the periphery. It is no longer exotic, a label which stirred interest in the late 1980s, when Madrid was a sustained target for funds.

The bolsa is now altogether too well known as small, narrow and illiquid.

On a conventional valuation basis, employing price earnings ratios and yields relative to the bond market, Spanish equities are cheap; but valuation alone is not enough to propel a market which is seeing plenty of special pleading for its rivals.

By the same token first half corporate results in Spain have been good, with at least 50 per cent in line with most estimates, and some 20 per cent coming out above expectations. In general, earnings have not been disappointing and Spanish companies, thanks in part to more liberal labour market laws, are looking trimmer than they have done for a long time.

"But," says Mr Robert Maxwell of Madrid brokers Maxwell and Espinosa, "you are getting far more upside on earnings in France, Germany and the UK than in Spain."

The bolsa's notorious lack of industrial stocks makes it particularly vulnerable in at times when investors seek a rally. "We are looking for results sur- prices and for cyclical upturns and Spain does not fit into our strategy for Europe right now," says Ms Alexandra Ferricome of London's James Capel.

Although Capel has remained neutral over Spain since the spring, with a weighting of 6 per cent in its European portfolio, its strategists now think that underweighting in the second and third quarters of the year might be more advisable.

A second reason for the bolsa's persistent gloom is that the government is doing little,

or at least not nearly enough, to whet investors' appetites.

The 1993 budget, which is currently before parliament, has Spain's GDP growing at 2.8 per cent next year, against 1.7 per cent this year, but it makes only a timid use of such expansion to tackle the public deficit.

The austerity sentiment is there for the Economy ministry forecasts a reduction in the deficit from 6.7 per cent of GDP this year to 5.9 per cent in 1995; but it is at best lukewarm.

More worrying still is the threat of inflation that darkens the Spanish landscape and with it the fear of an interest rate rebound. If Spain failed to tame inflation this year, ask

against the 1.6 per cent that exports contributed this year.

Analysts are concerned about a string of inflationary factors which have been built into and around the 1995 budget: a 1 per cent, across the board rise in Value Added Tax which, according to the Bank of Spain, will technically increase the CPI by 0.85 per cent; additional tax rises on tobacco, alcohol and fuel; as well as raised telephone charges; a fall in employers' social security contributions which unions will seek to recuperate in wage demands; a deflation of personal income tax rates and with it, an indexation of civil servant pay and of pensions.

"It would appear that if the government wanted to write inflation increase worries into Spain's economy next year, it could not have gone about it better," said one foreign bank economist in Madrid.

Utilities, consequently, are being downgraded because the interest rate is expected to have turned; the jury is out on the banks, the other large component of a bolsa portfolio.

The fact that growth next year will be domestic-led is of little comfort to Spanish investors, for there are precious few consumer spending stocks; the retailer, Cortefiel has been a welcome addition this year. It is easier in Spain to spot and to buy into the export sensitive companies.

Where, then, is the good news to be found?

A more cheerful theme, highlighted recently by Baring International Investment Management, is that Spain has been wrongly put in the same bag as Italy and Sweden. This is a mistake, according to Baring's Ms Kate Munday, because "when you look at the details Spain does not have a fatal problem".

The lesson from such a perception is that in Spain's case, the bond market has been selected. Baring, which is betting on the Spanish bond market's recovery, has moved from being overweight to being neutral in Spain.

## EUROPE

## Bourses shiver as US T-bond yield tops 8%

As the yield on US T-bonds went over 8 per cent again yesterday, bourses shivered and Mr Albert Edwards at Edward & Benson said that the US economy was growing "way out of control", writes *Our Markets Staff*.

US inflation was only at mid-trend after its rise from zero to over 3 per cent so far this year, Mr Edwards maintained; the yield on treasuries could rise sharply in the near term, he said, and European financial markets remained vulnerable.

FRANKFURT analysts made some attempts to relate share price movements to the economic fundamentals - an M3 growth rate slightly above expectations, the weak dollar and its effect on export margins - but this was mostly talk, as chemicals and financials moved back to the forefront in the sector rotation process.

The Dax index fell 47.73 to 2,022.22 on the session, down 4 per cent over five days after a 7.3 per cent rise in the previous week. In the post-bourse, the IIS-indicated Dax hit 2,007.19 before closing 35.55, or 1.5 per cent low at 2,006.00. Turnover fell from DM7.4bn to DM6.9bn.

Big post-bourse losers included Allianz, Deutsche Bank and Bayernrhop in financials, and BASF and Hoechst in chemicals, all with falls in the 3 to 5 per cent range.

PARIS closed a disappointing week with a further fall as the market was depressed by German and US data, which led some institutional investors to fear that further interest rate rises could be imminent. The CAC-40 index finished down 25.28 at 1,942.09, off 4.7 per cent on the week.

Générale des Eaux lost 2.22, or nearly 5 per cent, to 2,022.22 on the session, down 4 per cent over five days after a 7.3 per cent rise in the previous week. In the post-bourse, the IIS-indicated Dax hit 2,007.19 before closing 35.55, or 1.5 per cent low at 2,006.00. Turnover fell from DM7.4bn to DM6.9bn.

Big post-bourse losers

## FT-SE Actuaries Share Indices

THE EUROPEAN SERIES										
Hourly changes	Open	11.00	11.30	12.00	13.00	14.00	15.00	Close		
FT-SE Benchmark 100	1211.85	1211.68	1210.65	1210.44	1209.08	1208.22	1202.97	1204.75		
FT-SE Euro Stoxx 200	1372.55	1371.61	1372.51	1368.04	1368.58	1366.11	1361.97	1361.84		
	Oct 20	Oct 19	Oct 18	Oct 17	Oct 16	Oct 15	Oct 14			
FT-SE Benchmark 100	1204.22	1222.21	1233.92	1243.00	1246.17	1246.17				
FT-SE Euro Stoxx 200	1261.58	1279.60	1286.14	1286.14	1280.87	1274.65				
Data from 10/20/2019. Highway: 100, 1187.57, 1251.03. Lowland: 100, 1306.04, 1261.91. Parcel:										

## LONDON SHARE SERVICE

**INVESTMENT TRUSTS - Cont.**[illegible]

## LONDON SHARE SERVICE

## INVESTMENT TRUSTS - Cont.

Company	Price	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997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# Weekend FT

SECTION II

Weekend October 22/October 23 1994

## Howe – and why Europe ravaged the Tories

The ultimately explosive nature of the Thatcher-Howe relationship is explained by ex-chancellor Lord Lawson in a review of Howe's book

Conflict of Loyalty, by Geoffrey Howe. (Macmillan, £25, 786 pages).

Geoffrey Howe has completed the last major ministerial memoir of the Thatcher era, a substantial book by a substantial political figure. After Margaret Thatcher it was Geoffrey Howe, her first chancellor and longest-serving Foreign Secretary, who played the most pivotal role in that remarkable decade. Always readable, warmly human, and characteristically far-minded, it is an essential document for future historians.

A fine mind, intellectual conviction, courage, integrity, tenacity, resilience, great courtesy allied to driving ambition, and a voracious appetite for work – he tells us that he needed, like his prime minister, only four hours' sleep a night – combined to make Geoffrey Howe a formidable minister.

It was his courage and resilience in the face of the most appalling pressures that most contributed to his success as chancellor. In that period, he is perhaps best remembered for his brave 1981 Budget, which increased taxation by £4bn, in terms of 1981 money, at the very pit of a recession considerably deeper than the one through which we have recently passed.

The 1981 Budget came to be seen, along with the Falklands conflict in the following year, as the watershed in the political fortunes of the Thatcher government. Not only did it coincide with the end of the economic downturn, and the start of what was to prove an unusually prolonged upswing, but its success confounded the government's critics and threw them into disarray.

In his book, Howe is able to debunk the subsequent myth that

the Budget was not really his (and his Treasury colleagues') at all, but one imposed on him by Number 10. No similar climactic punctuated his time as Foreign Secretary, where his patient diplomatic skills were often employed to great effect. Geoffrey came to love the Foreign Office and his work abroad as Foreign Secretary. The problem lay at home, in the tension between himself and Margaret Thatcher, which became evident quite early on but which steadily grew in intensity. That increasing tension, which ultimately led to his explosive resignation from her government, is the sub-theme of this book.

According to Geoffrey, the deterioration in equality of the Thatcher-Howe partnership occurred "not, I think – at least initially – for personal reasons but largely because of Margaret's profound antipathy for the [Foreign] Office".

There is, of course, much truth in this; but it is not, I think, the whole truth. Margaret Thatcher certainly regarded the Foreign Office as irredeemably wet, if not actually on the side of the foreigners. But there was a personality problem, too – and one which went beyond, although it was compounded by, their unfortunate personal chemistry.

Geoffrey Howe is no wimp. He was, for example, right, on an early and persistent hawk on the trade union issue, which became so large during the 1970s and early 1980s. But it remains the case that his political philosophy, as his own account repeatedly shows, is one based on the values of consensus, compromise and "balance"; on a pronounced distaste for what he describes as theological absolutes; and in which the ultimate accolade for any particular stance is that it is "non-doctrinaire".

The difference between this and



Margaret Thatcher's approach to government needs no underlining. Moreover, Geoffrey's commitment to compromise, consensus, and "balance" is held with a passionate intensity. He refers at one point, for example, to "the heady, irresponsible, rhetoric of free collective har-

gaining" and has an instinctive revulsion against immoderate rhetoric of any kind.

He was to find what he saw as the crudeness of much of Margaret Thatcher's rhetoric increasingly distasteful.

This is linked with his fondness for Balfour's dictum that "democracy is government by explanation". Certainly, an important part

of the art of government in a democracy is for the government to explain to the people precisely what it is doing and why. At the end of the day, it knows that it will be judged not primarily by its intentions but by the results. Geoffrey's interpretation of the Balfour dictum, however, goes further than this, embracing extensive consultation and discussion of every kind, both before and after decisions are taken. Hence, for example, his devotion, more than once declared in

this book, to the late (and to my mind, unlamented) National Economic Development Council. He goes so far as to refer to "the value of NEDC as a generator of economic innovation and understanding" – a description which, as a chairman of the NEDC for more than six years, and with the best will in the world, I find difficult to recognise.

More generally, in the real world, the search for assent before a policy is put in place can often become a recipe for inaction – indeed, in the modern world of compulsive leaks, even "confidential" discussion among colleagues has to be handled

with considerable care if it is not to constitute an impediment to action.

Thatcher was right to recognise that the art of governing successfully in a democracy requires strong leadership; and strong leadership cannot allow quite as high a value to the search for consensus, compromise and "balance" as Geoffrey does, any more than it can afford his expansive interpretation of the need to explain. Sadly, she came to take this recognition too far, and, as Howe accurately chronicles, towards the end, her style of government became increasingly, and damagingly, uncollegiate, secretive, authoritarian and strident. But I have to say that my own practical preference is for the style of the early Thatcher years, rather than that of the more civilised Geoffrey Howe – which is perhaps why he accurately describes our close relationship as that of "firm friends, if never soulmates".

Nevertheless, there was enough common ground between Thatcher and Howe, in terms both of shared beliefs (at one point he describes himself as a "proto-Thatcherite", which in one sense he was) and shared experiences, to have made their differences of philosophy and character a strength rather than a problem, just as the rather greater differences between the personalities and outlooks of Thatcher and Willie Whitelaw, former Conservative party chairman, made his counsel all the more valuable to her and to the government.

That this was not so can be attributed to a number of factors. There was the bad chemistry, as incontrovertible as it was inexplicable, which led Thatcher to treat Howe, in personal terms, in a way that became increasingly intolerable. There was also the fact that, while he kept his very different instinctive approach to issues fairly well disguised when under siege by common enemies at the exchequer, once translated to the Foreign Office his profound commitment to compromise, consensus, and "balance", chiming as it did so well with the departmental ethos, became increasingly apparent.

It may be, too, that she believed that he was becoming to supplant her – as she knew Willie would not and could not do. Most prime ministers, if they are long enough in office, eventually come to believe they are being conspired against. As is clear from this book, if Margaret Thatcher did believe this she was mistaken. Certainly, as Geoffrey Howe makes clear, he wanted to succeed her as prime minister, but he never plotted to supplant her.

But the most important contributory factor to the increasingly sour and ultimately explosive nature of the Thatcher/Howe relationship was almost certainly their differing views on Europe – the issue over which Geoffrey was to resign, and the issue which continues to ravage the Conservative Party in government today.

It is true that he had very nearly resigned more than a year earlier.

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### The Long View/Barry Riley

## Knowing your limits



Unlimited liability used to be a curiously old-fashioned sign of a gentlemanly way of doing business. Now it simply looks like an open invitation to ungentlemanly litigants. With the current flotation of several more corporate vehicles for Lloyd's, including Wellington Underwriting and Matheson Lloyd's Investment Trust, following the earlier group of investment trusts launched last year, it appears as though these limited liability vehicles will account for more than a fifth of total capacity at the troubled London insurance market in 1995.

Before many years have gone by it is likely that the unlimited liabilities assumed by names for the past centuries will have become a thing of the past. Many names have, of course, simply been wiped out. The luckier ones will wonder why they should ever take such risks again.

So good for an ancient tradition – and good guidance too, many ruined gentletalk will say. But willingness to back your skill and your reputation with your entire fortune is a highly laudable feature of any financial community. It served the City of London well for centuries. Now, however, unlimited liability is disappearing from Lloyd's as it largely disappeared from the Stock Exchange a decade ago.

The professions are going the same way: one of the biggest accountancy firms, KPMG Peat Marwick, believes it has found a way to incorporate its UK auditing business with limited liability. The well-advised partners at Peats have no intention of suffering the fate of the less well-served Gooda Walker names.

Unlimited liability was once much more widespread, for instance among merchant banks – but Baring Brothers, for example, incorporated a century ago after its rescue by the Bank of England. Today odd pockets of unlimited liability still cling on – at the US investment bank Goldman Sachs, and top stockbrokers Cazenove.

Unlimited liability outlived its relevance in the big global markets many years ago, when the potential risks began to multiply and US lawyers began to sharpen their teeth. However, it has persisted because of the privileges it has bestowed and, in the case of Lloyd's, because the risks were not understood, at any rate by the Names. The main attraction has been lack of disclosure. The penalty for the privilege of limited liability is that your financial affairs must be revealed to your actual or potential creditors. Limited companies must pay for expensive annual statutory audits – paradoxically conducted until now by secretive partnerships of auditors who shrink from public disclosures. There have also been tax advantages.

Lloyd's expanded steadily in the post-war years because of its plethora of tax and currency loopholes at a time when wealthy Britons paid 98 per cent income tax on investment income, and were trapped by foreign exchange controls.

In the same period, London Stock Exchange firms thrived as unlimited partnerships so long as the securities markets were closely controlled, with fixed commissions and a clublike rulebook. Even the jobbers, who accepted position risk in a way that the brokers did not, traded satisfactorily in a sheltered environment. Once the markets were opened to international competition, however, the risks multiplied.

Why did Lloyd's not see the same problem coming? An important problem was the existence of a layer of agents between the risk-bearers (the Names) and the market. There was a breach of trust and immense losses resulted. Now, many ruined Names will suffer the final insult that they will be unable to participate in the return of the Lloyd's market to profit.

Lloyd's last reported a profit (of £509m) in 1991, in respect of 1987, on the three-year accounting system. Then came the losses, reaching over £2bn for each of 1990 and 1991. Of course, not all syndicates made substantial losses.

There has been a flight to quality, with the 400-odd syndicates of 1990 likely to dwindle to 150 or less by 1995.

The corporate capital is obviously being attracted to the best syndicates. Lloyd's results will anyway have improved out of recognition in the past couple of years, with the insurance cycle turning round (although it may now be past its peak). New capital should make a good return so long as it is successfully ring-fenced from the past problems of Lloyd's, largely related to asbestos and pollution.

But the year-old Lloyd's investment trusts, of which there are about a dozen, have failed to shine so far. The big attraction is that the capital can work twice over – yielding a normal investment return but also a second profit from backing the insurance risk. Yet the Lloyd's market remains under a suspicion. There continue to be fears that the ring-fencing from the "old years" will be breached, and Lloyd's 1995 solvency test might yet prove a tough hurdle.

The kind of unprecedented claims through the US courts that sank so many Names have also threatened the big firms of accountants. Most are open to various claims of negligent auditing from aggrieved investors.

It was an anomaly that accountants should have retained unlimited liability as they grew over decades from small beginnings to global firms' auditing multinational corporations. As with Lloyd's, the risks grew out of proportion to the available wealth. A prominent American firm, Laventhol & Horwath, actually ceased trading in 1990, and others remain threatened. Most of the Big Six US firms have become Delaware limited liability partnerships during the past few months.

All this, no doubt, is progress. But in the City of London, unlimited liability once put a premium on the senior partner's nose for probity. Would old-fashioned partnerships have, for instance, floated quite so many ill-prepared issues as have been launched this year? The danger is that limited liability leads to limited responsibility.

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## MARKETS

# London

## Dollar fears unsettle equities

Martin Dickson, financial editor

A chill wind from the west - in the form of US currency weakness and inflation fears - has set a fragile, unhappy, tone in the London equity market over the past week.

The FT-SE 100 index began the week with a modest rise, helped by defence industry bid speculation, but lost its nerve mid-week and fell sharply yesterday to close down some 74 points on the previous Friday night, at 3032.6.

The main factor unsettling traders in London (and other European centres) all week was the weakness of the dollar, which fell against most major currencies on news of a widening US-Japan trade gap and speculation of a two-year low against sterling, through the psychologically significant barrier of \$1.60 to the pound.

The weakness of the currency, coupled with revived US inflation concerns, prompted fears of an early increase in short-term interest rates by the

US Federal Reserve, and a knock-on effect on other markets around the world. The dollar's decline also had a depressing effect on blue chip British companies with large dollar-earning interests, because City analysts have started trimming back their estimates of overseas earnings for many of these companies. Shares under pressure included Hanson, Grand Metropolitan and Cadbury Schweppes.

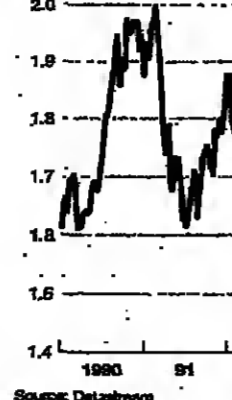
There appears to have been some switching by investors to UK financial sectors, which are regarded as less vulnerable to the vagaries of global currency markets.

These trends, however, could throw up some interesting buying opportunities among interdependent to a two-year low against sterling, through the psychologically significant barrier of \$1.60 to the pound.

As the equity markets team at S.G. Warburg Securities points out, the impact of currency movements has been dampened in recent years because many companies now base their currency translation calculations on the average

### Sterling

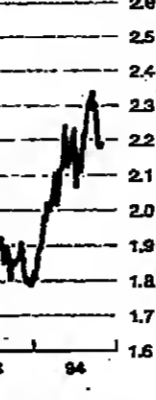
Against the dollar (\$ per £)



Source: Datastream

### Yield ratio

Long bond yield divided by FT-SE-A All-Share dividend yield



Source: Datastream

exchange rate prevailing in any year, rather than year-end rates. So many analysts have now moved their assumptions about the average rate for 1994 from \$1.50 to \$1.55 - not to \$1.60 or more.

Moreover, there is no longer necessarily a strong correlation between overseas interests and earnings sensitivity to currency movements, because many companies can now hedge their currency risk.

In addition, the Warburg team argues that major performance shifts between British domestic and overseas companies have in the past coincided with de-synchronised global growth, rather than currency volatility, and at present all the major world economies seem to be recovering, albeit at different rates.

Finally, many currency analysts argue that the dollar is due to rally - although opti-

mists have been arguing that for the past year, and the currency has instead nose-dived against the DM and Yen.

Domestic British economic factors have also taken their toll on market sentiment over the past week. The country's dismal record in containing price rises means the market remains acutely sensitive to any figures hinting at the possibility of rising inflation.

So a frisson of anxiety ran through the market on Wednesday when September UK retail sales volumes were stronger than the City expected - even though much of the growth was in areas subject to heavy price discounting.

Yesterday brought forth statistics for third quarter GDP - a much more reliable gauge of the economy - and these showed a more comforting, steady 0.7 per cent increase, much in line with analysts' forecasts.

However, that proved little help to the Government gilt market, where the rally of the past few weeks has been replaced by renewed anxiety over inflation on both sides of the Atlantic. While many argue that gilts are due for a strong rally, it is hard to see a short-term change in sentiment, particularly ahead of next Wednesday's £250m Bank of England auction.

It is equally hard to see UK stocks making much headway without a drop in bond yields, given the current jittery market sentiment and the relative valuation of the fixed income and equity sectors. For example, the yield ratio - the relationship between the yield on government bonds and on corporate dividends - stands at around 2.20, broadly in the

middle of its normal range. Among individual market sectors, the week's more notable share price movements included a sharp drop in several drug stocks - Glaxo, Wellcome and SmithKline Beecham - partly because of dollar weakness but also because of a shift in sentiment away from the sector. SmithKline was also hurt by news that third quarter US sales of Tagamet, once its best selling anti-ulcer drug, had collapsed after the expiry of patent protection.

The week's main corporate story centred on GEC, the defence and electronics group, and its possible strategy responses to the agreed £475m bid announced on October 13 by British Aerospace for submarine-maker VSEL. GEC, BAE's defence industry rival, indicated after the BAE offer that it was weighing a counter bid for VSEL. But this week market speculation grew that GEC might bid for BAE itself, driving up that company's share price sharply.

BAE was reported to have told GEC that it would be prepared to resume talks on merging the defence interests of the two companies, abandoned a year ago, if GEC did not try to stymie its bid for VSEL. A financier with knowledge of GEC was in turn quoted as saying that it had decided against a hostile bid for BAE.

A full GEC bid for BAE certainly looks a long shot, not least because of the political ructions this would cause. But at the week's end GEC's intentions were not clearer, and the company was under pressure from the Takeover Panel to throw some light on a situation almost as uncertain as the outlook for the dollar.

NatWest has - with commendable caution - produced a list of "The hardest stocks to buy". Top of the list is venture capitalist trust 3i, the recent history of which provides a good

### Serious Money

## Ideas - the very life blood of investment

Gillian O'Connor, personal finance editor

Most personal investors will have very different aims from professionals managing a portfolio of investment trusts. But they can still benefit from understanding how the market works. This year's investment trust annual from NatWest Securities\* provides many useful insights.

The annual is a self-proclaimed tool for professional investors. Somewhat apologetically, its 124 pages are devoted to analysing the FT-SE-A investment trust index, and the proposed new sub-sectors. Split-capital trusts (see page VI) are excluded from the index and will form their own group. Conventional trusts will be divided into UK, Europe, International, Geographic Specialists and Venture and Development capital. NatWest gives a mildly barbed welcome to these groupings, but its real objective is practical rather than academic.

The annual explains to clients how to ensure their portfolios do not lag behind the index; a "Bluffer's Guide to Running an Investment Trust Portfolio". It also suggests some ways in which the new classifications system might influence the behaviour of investors - and, hence, of share prices.

The index is dominated disproportionately by a fairly small number of stocks. Get these "performance shapers" right and you can expect to stay fairly close to the index with minimum effort - and invest selectively in the smaller trusts to try to achieve an outstanding performance. But there are often hidden barriers to getting the desired "weightings" in some trusts because many of the shares are held lightly.

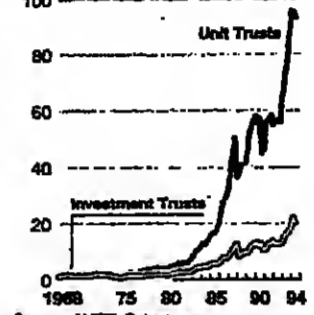
NatWest has - with commendable caution - produced a list of "The hardest stocks to buy". Top of the list is venture capitalist trust 3i, the recent history of which provides a good

example of how scarcity can affect a share price.

One reason it has done so well since it came to the stock market this summer is that half the shares are still held by the big banks. So, professional investors have had to buy steadily to try to get a holding in the company proportionate to its status as the largest investment trust - and a FT-SE 100 member, to boot.

Such considerations are quite irrelevant to most personal investors. But they can take advantage of the tribal totems and customs laid bare in the annual.

More money in units



Source: AJTF, Datastream

NatWest suggests, for instance, that the splintering of the index could throw up other funds which are hotly sought-after purely because of their importance to a sub-index. A speculative buying opportunity?

Another useful concept for the numerate investor is "cluster analysis". The point of this exercise is to find out which trusts within a particular sector tend to move together.

Professional investors use this kind of information to construct the type of portfolio they want as efficiently as possible.

Why hold six stocks when three can do the same job? The private investor can use this analysis for his own purposes. The fact, say, that a German smaller company trust has

been sluggish while a French equivalent has doubled is very material to the small company addict. This weak correlation between two seemingly similar trusts does not necessarily mean that he should avoid the German one - it could be that its big leap was yet to come - but the divergence is worth investigating. Ideas are the life blood of investment.

The amount of money invested through authorised UK unit trusts is nearly £100bn, roughly five times the market value of all UK investment trusts. A clutch of top notch stockbrokers publish heavyweight research into investment trusts. Only one relatively small firm produces serious qualitative analysis of unit trusts. Odd?

Not really. Investment trusts shares are bought mainly by professional investors, while unit trusts are sold mainly to personal investors.

Professional investors get good comparative analysis free from brokers who hope to get their business. Private investors foot the bill for the commission handed over to financial advisers by the unit trust managers themselves.

Most of the total marketing spend goes on persuading people to buy, not on researching which unit trusts are worth buying.

But this is not because it does not matter which unit trust you buy. For example, the latest Emerging Markets annual review from Fund Research shows wider disparities than ever before. The best global fund rose by 67 per cent, the worst by just over 6 per cent.

Time for some cluster analysis?

\*1994-95 Investment Trust Annual: £10 from NatWest Stockbrokers, 55 Mansell Street, London E1 8AN. Mark your order "Atn Mr Clewlow" or phone 071-835 5500.

### HIGHLIGHTS OF THE WEEK

	Price	Change	1994	1994	
	Ytd	on week	High	Low	
FT-SE 100 Index	3032.6	-73.9	3520.3	2876.8	Dollar weakness
FT-SE Mid 250 Index	3502.4	-41.0	4152.8	3363.4	Lack of buyers
APV	67 1/4	+10 1/4	138	67 1/4	Chief executive resigns
Automated Security	77	-11	140	69	Boardroom resignation
Azeln	132	-30	281	118	Results due in November
Eurotunnel Uts	209	-19	592 1/4	195	Missed revenue forecast
Havelland Europe	186	+18	191	121	Restored dividend
Iceland	169	+14	211	133	Broker recommendations
P & O Delft	595	-43	743	593	Profit-taking
Paterson Zochonis	463	-26	625	428	Profits warning
Seamtronics	16	-8	89	15 1/4	Raising £2.5m of new capital
Senior Engineering	85	+14 1/4	150 1/4	72	Recovery hopes
Servisair	148	+11 1/4	149	138	Potential
VideoLogic	20	-5	49	18 1/4	Warns of further losses

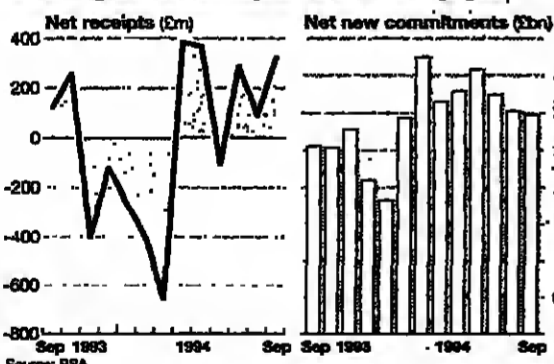
† Based on issue price of 135p.

### AT A GLANCE

#### Finance and the Family Index

Gilts: Is this the time to buy? ..... III  
Paperless share dealing/Directors' dealings/New issues ..... IV  
Eurotunnel: sell or buy?/Critical illness policy ..... V  
Trusts/Fixed deposits/Annuities/Highest rates table ..... VI  
Russian bonds/CGT/Q&A briefcase ..... VII

#### Building societies deposits and mortgages



### Building societies report fall in mortgage lending

Building societies reported a rise in new savings but a fall in mortgage lending in the week last month of a half percentage point increase in interest rates. Net retail receipts were £322m - the highest monthly level since May and more than three times the August figure of £91m. However, net new commitments for mortgages dropped to £2.97bn, compared with £3.02bn in August. Adrian Coles, director-general of the Building Societies Association, which released the figures, said that new savings products may have helped to boost societies' inflow despite tough competition from National Savings. Fixed rates, page VI

### Survey on financial advice

Only 8 per cent of consumers are willing to pay for financial advice, says a new survey from market research firm Mintel. Slightly more men than women feel it worthwhile, and it is older, richer people who are prepared to pay. In practice a quarter of all people who took financial advice in the 12 months before the survey period asked friends and relations. And a further 21 per cent went to their bank manager, even though none of the clearer offer independent advice any more. A majority think life assurance is a good way to save.

### Trust plans C-share issue

Finsbury Smaller Companies Investment trust is planning to raise an extra £15m with a C-share issue. Some £10m of that is likely to come from a placing with institutions, but £5m will be available to the public. The £35m, split-capital fund invests in UK smaller companies, and is fully PEP qualifying. The closing date for the offer is November 9, and S.G. Warburg is broker to the issue. Investment and unit trust launches, page VI

### Small companies slip back

Smaller company shares slipped back slightly last week. The Hoare Govett Smaller Companies Index (capital gains version) dropped 0.3 per cent to 1612.50 over the week to October 20. The previous week it had recouped some of its losses, rising to 1618.51 on October 13, after falling from 1637.33 on September 23 to 1599.51 on October 6. The index is now down 4.6 per cent since the start of the year, compared with a 9.3 per cent fall in the FT-SE-A All Share Index.

### Next week's family finance

Pensions transfers come under the spotlight when the Securities and Investments Board, the City regulator, sets out guidelines for compensating people who have been wrongly sold personal pensions. We take you through the report's implications and help you decide whether you need a personal pension.

## GM delivers a nasty jolt to share prices

The stock market's vulnerability to rising interest rates and poor corporate earnings was there for all to see this week when a sharp hike in bond yields and unexpectedly disappointing earnings from General Motors sent share prices tumbling.

Aside from the occasional setback, the Dow Jones Industrial Average has been on a steady upward path for most of the past two weeks, and seemed poised to break through 4,000 thanks primarily to another quarter of strong corporate earnings.

Yet, on Thursday morning the market received a nasty jolt when GM released its latest quarterly results and the bond market responded on a surprisingly strong regional economic report from the Philadelphia Federal Reserve.

The news from GM was particularly unwelcome, for one of the constants in the market for most of this troubled year has been the strong performance of the domestic car manufacturing industry. Earlier this month GM was the subject of a flattering cover story in Fortune magazine

entitled "£11bn Turnaround at GM", and Detroit was basking in the approval of Wall Street.

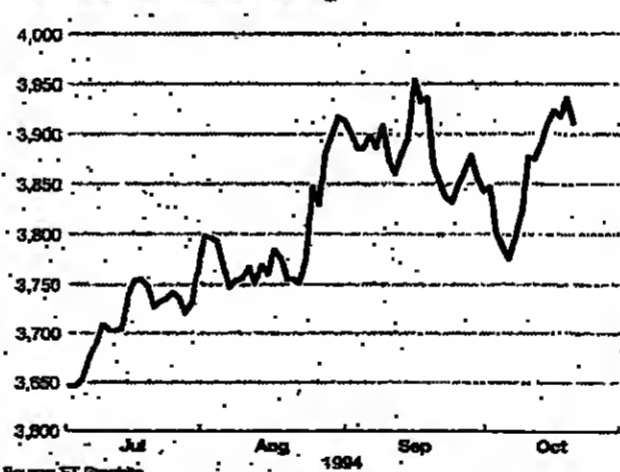
Thus, it came as a particular shock this week when GM reported net income of \$552m for the third quarter. At first glance, that looked like an impressive recovery from the company's loss a year ago of \$112.9m. The results, however, were skewed by a one-off accounting adjustment which lifted earnings by \$200m.

When that contribution was stripped out, the figures were a lot less encouraging. Analysts were particularly troubled by the disappointing performance of GM's international operations, where profits tumbled 60 per cent to \$240m.

Although GM blamed some of its troubles on two strikes to North America, the group has clearly been struggling to keep up with demand, and it is still failing to get control of its costs.

The response from investors to GM's travails was instantaneous. The shares were sold heavily from the minute the figures were released - \$146m at the end of the day GM's stock price had dropped \$3% to

### Dow Jones Industrial Average



Source: FT Graphix

\$43%. The extent of investors' unhappiness was evident in the extraordinary amount of selling - turnover was 16.8m shares, almost seven times the normal daily average. The decline wiped some \$2bn off GM's market value.

The selling was not confined to GM - other auto stocks also fell, with Ford and Chrysler both racking up losses - and was not confined

to Thursday. By late morning Friday, GM shares were down another 3 1/4% at \$41 1/4, taking the total loss since the earnings were released to more than 11 per cent.

If the news from GM was not bad enough, the stock market also took a beating in the latter half of the week from a sharp rise in bond yields, which edged towards the dreaded 8 per cent mark. The

selling of bonds was triggered by two sets of data which undermined fixed-income investors' view that the economy was slowing down sufficiently to dissuade the Fed from raising interest rates one more time as a precautionary measure against inflation.

The first figures were from the Commerce department, which announced that housing starts in September jumped 4.4 per cent. The increase took the annualised rate of housing starts to a 1.5m units, the highest since December. The second, even more disturbing, set of statistics came from the Philadelphia Fed, which reported a surge in its index of regional business activity during October. Especially worrying was the news that prices paid and received had climbed sharply in the month.

Fresh weakness in the dollar also depressed bond prices this week, and with them stock prices. In fact, on Friday it was another drop in the US currency's value which finally pushed the yield on the benchmark 30-year government bond above 8 per cent - the first time long-term interest rates have been that high

since early 1992.

Although some analysts had been predicting a stock market rout if bond yields went above, and stayed above, 8 per cent, it did not materialise. Sentiment, however, was clearly affected by the latest upward move in yields.

The rise in long-term rates and GM's unhappy third quarter overshadowed what was another generally positive week for corporate earnings. IBM reported third quarter results which comfortably exceeded analysts' forecasts, yet the computer group's shares fell when the figures were released. The decline was indicative of two things: it underlined the general malaise of the wider market, and it proved that "Big Blue" - for decades the bellwether of the stock market and the country's most eagerly followed company - is no longer the force it once was.

Patrick Harverson

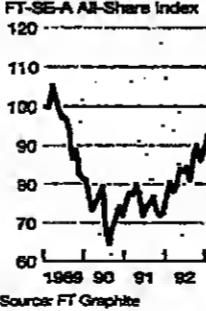
Monday	3923.93	+ 13.45
Tuesday	3917.54	- 06.39
Wednesday	3936.04	+ 18.50
Thursday	3911.15	- 24.89
Friday		

### The Bottom Line

## A prescription for success

### Smiths Industries

Share price relative to the FT-SE-A All-Share Index



Source: FT Graphix

shareholders, thanks mainly to a cash flow of more than £120m in each of the past three years. The group ended July with just £20m net debt.

The acquisitions have, however, had one negative impact on the balance sheet: goodwill write-offs mean that share-

Dividend (pence)

Year-end July 90

Times covered by earnings per share

2.8 2.5 2.2 2.1 2.0 2.0

1989/90 90/91 91/92 92/93 93/94

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Paul Taylor

## FINANCE AND THE FAMILY

# The lessons to be learnt from the gilts fiasco

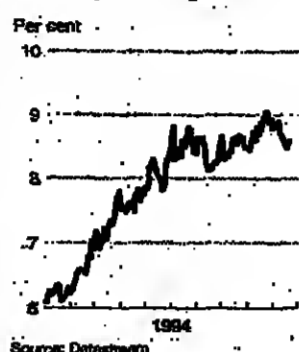
Philip Coggan analyses what happened, and why

**G**ilt-edged securities are often touted as a "safe" choice for private investors. After all, what could be more secure than an investment guaranteed by the government, paying a fixed income and having a fixed repayment value?

Those private investors who bought the safety argument for gilts late in 1993 will be laughing hollowly, however. Since January 3, the FT government securities index has dropped from 107.8 to 91.3, while yields on medium-term gilts have risen from 6.1 per cent to 6.64 per cent. The total return on seven to 10-year gilts over the year to October 17 was -8.07 per cent, according to Lehman Brothers, and that is before taking account of tax. The news is not all bad. Investors will realise their loss only if they sell their gilt holdings at today's prices. Indeed, one of the advantages of gilts is that, if you hold them until maturity, you are absolutely sure of your nominal return, those who bought at the start of the year will still earn 6.1 per cent if they hold on.

This is, however, small comfort; after all, investors could have kept their money in the building society for the past 10 months, earning a positive return. But should the falls in bond prices discourage private investors from holding gilts, or should they see it as a buying opportunity? Returns on the 10-year gilt, at 6.64 per cent, are still well above those on offer from a building society. Many economists argued at the start of 1994 that the "fundamentals" were favourable for gilts; in their view, UK inflation was not set to accelerate and the government was getting its budget deficit under control. So far, such analysis

## UK 10 yr bond yield



Source: Datastream

has been proved right - but the economists' conclusions have been completely wrong. Gilt investors have had a painful lesson about the global scale of the bond market.

To understand what has happened to gilts this year, you must look across the Atlantic. On February 4, the US Federal Reserve increased interest rates from 3 to 3.25 per cent. The change might have been small in scale but its effect on sentiment was enormous.

For much of the 1990s, the Fed had been operating a deliberate policy of low interest rates - both to encourage the US economy to climb out of recession and to rebuild the finances of the US banking system, which were weakened severely in the debt binge of the late 1980s. Low interest rates let the banks borrow cheaply and invest the proceeds in higher-yielding bonds.

Banks were not the only ones to spot the profitability of this strategy. "Hedge" funds, which speculate with borrowed money, also got into the act. And private investors, dissatisfied at the low rates payable on deposits, poured money into bond and equity funds.

In the UK and Europe, interest rates also fell early in the 1990s in response to recession. The same switch of funds from cash to bonds and equities occurred in the European financial markets, and was reinforced by US investors looking to diversify overseas. The result was a speculative bubble which drove the yield on the 30-year US Treasury bond down to 5.78 per cent in October 1993, its lowest level for a generation.

Although the bond market had started to weaken before the increase in US rates in February, the change in Fed policy proved a watershed. The initial rise in bond yields meant that those who had been speculating with borrowed money on ever-falling yields had to move quickly to cut their losses.

Then, too, the Fed move coincided with signs that the European economies were recovering faster than expected. Inflation, regarded previously as yesterday's problem, suddenly became seen as tomorrow's danger.

**T**he turn in the bond markets also revealed a more fundamental problem. Governments round the world had entered the recession with their finances in an unsatisfactory state; the economic downturn made things worse by cutting tax revenues and boosting spending on social services. As a result, more bonds were issued.

While speculators were supporting the market, there was plenty of demand to meet this extra supply. But Robin Aspinall, analyst at broker Panmure Gordon, says the problems have come home to roost. "Last year, an abundance of liquidity released from (mostly

## Gilt issues - best value v tax status

Your capital gain on a gilt - a UK government bond - is tax free. However, you pay tax on the interest. Therefore, gilts which deliver a higher proportion of their total return as capital gain are more tax efficient, and - other things being equal - more attractive to higher rate taxpayers.

NON-TAXPAYERS		Stock	Price	Yield %	Volatility %
CONVENTIONAL	<5yr	Exchequer 12.25%, 1998	113 3/8	6.57%	3.43%
	5-10yr	Treasury 8.75%, 2002	105 1/2	8.75%	5.42%
	10-15yr	Treasury 12.5% 2003/05	121 2/3	8.98%	5.80%
	>15yr	Conversion 9%, 2011	104	8.54%	6.58%
INDEX-LINKED		Index-Linked 2%, 1996	200	7.11%	1.79%
		Index-Linked 2.5%, 2001	168	4.39%	6.00%
25% TAXPAYERS		Stock	Price	Yield %	Volatility %
CONVENTIONAL	<5yr	Treasury 8%, 1998	90 1/2	6.84%	3.58%
	5-10yr	Treasury 8.75%, 2004	87 7/8	6.75%	7.03%
	10-15yr	Treasury 8%, 2002/06	95 1/4	6.58%	7.05%
	>15yr	Treasury 8.25%, 2010	81	6.62%	9.38%
INDEX-LINKED		Index-Linked 2%, 1996	200	4.37%	1.79%
		Index-Linked 2.5%, 2001	168 1/4	4.62%	5.89%
40% TAXPAYERS		Stock	Price	Yield %	Volatility %
CONVENTIONAL	<5yr	Treasury 8%, 1998	90 1/2	6.89%	3.58%
	5-10yr	Treasury 8.75%, 2004	87 7/8	6.89%	7.03%
	10-15yr	Treasury 7.75%, 2006	94	5.35%	7.44%
	>15yr	Treasury 8.25%, 2010	81	5.54%	9.38%
INDEX-LINKED		Index-Linked 2%, 1996	200	6.27%	1.79%
		Index-Linked 2.5%, 2001	168	4.00%	5.89%

Yield to redemption gilt and index-linked gilt are based on the current market price. Volatility is based on the volatility of the stock price to maturity in years. Money yield figures are based on a 10 year period. Source: EBT

US) cash inundated the bond markets of the world, delaying and disguising the impact of higher public sector debt issuance," he says.

"The heretofore of that has been a real problem: the shock of re-discovering that supply still matters, combined with the hangover left following the over-enthusiastic participation in last year's bull run."

All this had an exaggerated impact on the UK. Investors reasoned that if inflation was set to return with a vengeance, Britain probably would be among the victims, partly because of its poor historical record and partly because its recovery was further advanced than that of its fellow European countries.

The UK did not help its cause by cutting base rates just four days after the Fed's first increase. The cut, seen as badly-timed, cast doubts on the government's will to bring down inflation within the lower half of its 1-4 per cent target range.

Yet, after a long period of both relative and absolute weakness, gilts have started to revive recently. Markets accepted the argument that the government's increase in base rates - from 5.25 to 5.75 per cent - was a pre-emptive strike against inflation. Confidence in the government's new monetary

regime, which places a greater emphasis on the role of the Bank of England, was in large part restored.

Furthermore, the government is taking action to reduce its budget deficit. And while the public sector borrowing requirement is forecast to be £30bn to £40bn this year, Britain's finances still look a lot healthier than those of other European countries such as Belgium, Italy and Sweden.

**T**his economic recovery shows genuine signs of being different from its recent predecessors. Monthly inflation numbers have been consistently below forecast, culminating in the fall in underlying inflation to 2 per cent in September, the lowest for 27 years.

And, far from deteriorating, Britain's trade position has been improving steadily this year. Indeed, Nigel Richardson, head of bond research at Yamachi International Europe, thinks the UK is going to be one of the best-performing bond markets of the next 12 months.

Certainly, at 8.63 per cent, anyone buying the 10-year gilt is getting a yield which is more than six percentage points higher than the September inflation figure.

Most economists think inflation



## If you're bent on buying, here's how to do it...

For most investors, the cheapest way of buying gilts is through the National Savings Stock Register, forms for which can be obtained at the post office. A drawback is that the NSSR is a postal-only service; thus, by the time it has received your order, prices may have moved against you. But the reverse can also happen - besides which, price movements over a day or so should not make all that much difference for long-term holders.

For purchases of under £250, the NSSR's commission is a standard £1. For larger buys, the cost is £1 plus 50p for every further £125 or part thereof. Thus, a £1,000 purchase of gilts would cost £4; a £10,000 deal would cost £40.

For sales, the commission is 10p for every £10 or part thereof if the proceeds are less than £100. Between £100 and £250, the rate is 21p; above £250, the charges work in the same way as for purchases.

Only £25,000 of a stock can be bought or sold in one day via the NSSR, which could cause some problems for large investors. As a result, they

may prefer to deal through a stockbroker.

Unless you are dealing in sums of over £10,000, a conventional stockbroker probably will be more expensive than the NSSR; however, you will be more certain about the price of your gilts and you might be able to benefit from the broker's advice.

If you do not feel capable of making your own gilt selection, you could buy into a bond fund. There are around 20 bond unit trusts and, like their equity relatives, they own a wide spread of stocks - although this does not eliminate risk. In the 12 months to October 1, the average gilt trust lost 10.4 per cent.

The fund manager's expertise also comes at a price: initial charges can be up to 6 per cent and annual charges range from 0.5 to 1.5 per cent. These will obviously reduce investors' income.

Furthermore, while gains on gilts held directly are free of capital gains tax, gains from gilt unit trusts are not.

P.C.

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PT 22/10/94

\*Source: Mitrail offer to bid net income reinvested since launch (11.4.88) and 2.10.89 to 3.10.94. Please remember that past performance is not necessarily a guide to future performance. The value of units and income from them may fall as well as rise, and you may not get back the original amount invested. Tax rates and reliefs are those applicable at time of printing and may be subject to change. Their value will depend on individual circumstances. Issued by Morgan Grenfell Investment Funds Ltd, 20 Finsbury Circus, London EC2M 1UT. Member of IMRO. Morgan Grenfell Investment Funds Ltd is an appointed representative of Morgan Grenfell Unit Trust Managers Ltd which is a member of IMRO, LAUTRO and the AUIF.





# FINANCE AND THE FAMILY

## Top annuity rates

An annuity provides a guaranteed income for life in return for a lump sum investment. The bulk of the fund built up by many types of pension plan must be used in this way. The table shows COMPULSORY PURCHASE ANNUITY RATES which are used for small company schemes, additional voluntary contribution plans (AVCPs) and free standing AVCs (FSAVCs) among others. The rates do not include inflation proofing.

Male age 55	Annuity (+0.2%)	Female age 50	Annuity (+0.3%)
General	£10,380.18	General	£9,133.97
Equitable Life	£10,284.00	Norwich Union	£9,126.00
RNPFN	£10,261.68	RNPFN	£9,075.24
Male age 60	Annuity (+0.6%)	Female age 60	Annuity (+1.2%)
RNPFN	£11,275.20	RNPFN	£10,288.16
General	£11,266.72	General	£10,118.87
Equitable Life	£11,196.96	Royal Life	£10,029.59
Male age 70	Annuity (+2.6%)	Female age 70	Annuity (+1.6%)
RNPFN	£14,872.08	RNPFN	£12,888.24
Equitable Life	£14,138.04	Royal Life	£12,810.98
General	£14,082.28	Equitable Life	£12,201.00

JOINT LIFE - 100% SPOUSE'S BENEFIT				
Male age 50		Male age 65		
Female age 57	Annuity (-0.7%)*	Female age 63	Annuity (-0.9%)*	
General	£9,463.92	General	£10,029.61	
RNPFN	£9,211.44	RNPFN	£9,956.16	
Norwich Union	£9,184.00	Royal Life	£9,745.50	

\*Month's movement  
Payments are monthly in arrears, without a guarantee period. Rates are at 18 October 1994. Figures assume an annuity purchase price of £75,000 after paying tax free cash of £25,000 and are shown gross. RNPFN annuities are available only to nurses and allied workers.  
Source: Annuity Bureau 071 620 4060.

## Annuities Trend is down

Although the table shows that many annuity rates have moved up since a month ago, most competitive providers have reduced theirs, including Generali, Prudential, Sun Life of Canada, Canada Life and Royal Life.

A few companies have maintained rates but the trend is downwards. Again, the movement is linked to inflation, this time with indications that inflation is under control. In the short term, rates should continue to fall.

Peter Quinton, Annuity Bureau

Split-capital investment trusts are complicated enough to understand at the best of times, with their multitude of different share classes entitled to varied portions of capital and income. But recent events have highlighted a further area of complication: what happens when a split-capital trust is nearing the end of its life?

Shareholders in Sphere, due to wind up in a year's time, are considering a bid by Dartmoor, another split-capital investment trust. Meanwhile, shareholders in Gartmore American Securities, due to wind up in March, voted this week not to block an extension of the trust's life - so thwarting an anonymous American investor (or group) who had worked out a clever plan to get a larger share of the assets on wind-up.

These situations arise because split-capital trusts have limited lives. When the trust is created, a provisional wind-up date is written into its legal structure - usually seven or 10 years away. But this does

# A quick guide to doing the splits

Bethan Hutton looks at the complications



not mean the trust will necessarily cease to exist on that date. Fund managers make their living by charging a percentage on the funds they have under management, so they are understandably reluctant to wave goodbye to a pool of money if there is any way they can avoid it.

The main options are: for the fund to be wound up; for its life to be extended; or for another trust to bid for it. Proposals are made up to a year in advance, so that shareholders can decide. The most attractive option for them will depend on which class of share they hold, and their priorities.

The two most common types of split-capital trust share are zero dividend, preference shares and income shares (or ordinary income shares). Zeros pay no dividends, but their capital entitlement grows by a fixed amount each year and is paid out in one go when the trust is wound up. Income shares get all the trust's income and can yield very highly, but their capital entitlement is less generous. It often depends on what is left when the trust has been repaid.

Income shareholders may not mind carrying on with the same trust, or accepting a bid from a similar trust, if it gives them a continuing income stream - but zero-holders are another matter. Zeros are used

as financial planning tools for items such as school fees: investors buy zeros from a series of different trusts so that the lumps of capital become available at regular intervals. If, rather than winding up, a trust is rolled over, that could throw out all the careful planning.

Zeros do not usually have voting rights, but trusts usually are structured to give them a vote if a deal that would affect their fixed cash entitlement, or its date of payment, is being considered. Most re-structurings and bids give zero-holders a cash option on or before the scheduled date.

One exception was the re-

structuring last year of the City of Oxford trust, which made no cash offer to zero-holders when the life of the trust was extended. At the time, the board explained that because the extended life of the trust would add value to the shares, zero-holders would do just as well by selling in the open market after the re-structuring.

While that might have been true in that instance, it will not always be the case. Indeed, James Hart, a split-capital specialist at broker Olliff & Partners, says he does not think this approach will be used again as it caused a lot of bad feeling among shareholders

and drew heavy criticism from fund managers and corporate financiers. The strategy used by another Gartmore split last year met with more approval. As Gartmore Value was nearing the end of its life, a newly-created trust, Gartmore Shared Equity, bid for its shares. This gave investors two options: to sit tight until wind-up and get their scheduled entitlements, or swap their shares for others in the very similar new trust.

Most of the income-share bidders opted for the new trust, as did a fifth of the zero-holders, while the rest are still in the rump of Gartmore Value, which should wind up in January, as scheduled. The new trust also raised extra cash with a public offer. The success of this scheme could mean it is imitated by other trusts over the next few years.

The takeover battle for Sphere illustrates a different approach again. Dartmoor is offering eight of its new income shares for every 25 Sphere income shares.

The offer has been accepted provisionally by Exeter Fund Managers (Dartmoor's manager) and Abtrust Fund Managers which, between them, hold more than half the ordinary shares.

The Sphere board yesterday recommended either retaining their shares in Sphere until the wind-up, or selling them in the market. It advised accepting the offer for warrants.

Hart also favours holding on to the Sphere shares. He points out that while Sphere has an international general portfolio, Dartmoor's portfolio of mainly highly-gearred instruments is not such a safe prospect.

NEW INVESTMENT TRUST LAUNCHES											
Manager (Telephone)	Broker	Sector	Warrants	Size £m	Yield %	PE Ratio	Dividend	Issue Price	Minimum Investment	Annual Change	Offer Period
<b>Fidelity Special Values</b>											
Fidelity (0800 414151)	SG Warburg	UK Growth	1:5	30+	n/a	Yes	Yes	100p	95.6p	£1,000	19/10/94-9/11/94
New twin for Fidelity's Special Situations unit trust, run by Anthony Bolton											
<b>Foreign &amp; Colonial Emerging Markets</b>											
Foreign & Colonial (071 628 8000)	Credit Lyonnais Lab	Emerging Mkts	1:5	100	n/a	No	Yes	100p	95p	£2,000	26/10/94-11/11/94
C-share issue from established emerging markets trust, ranked second in its sector over three years											
<b>Invesco Korea Trust</b>											
Invesco (0800 010333)	de Zoete & Bevan	Far East ex Japan	1:5	30	n/a	No	Yes	100p	96p	£2,000	closes 2/11/94
C-share issue to raise new capital for this three-year-old, £40m specialist trust											
<b>Murray Emerging Economies</b>											
Murray Johnsons (0345 222 220)	De Zoete & Bevan	Emerging Mkts	1:5	20m+	n/a	No	Yes	100p	95.5p	£1,000	9/11/94-29/11/94
Investing in real emerging markets - India, China, Brazil, Hungary etc - not "gateways" like Hong Kong or Vienna											

NEW UNIT TRUST LAUNCHES											
Manager (Telephone)	Sector	Target Yield %	Full PEP Deal	Savings Schemes	Initial Annual %	Charges outside PEP	Minimum Invest. £	Annual %	Charges inside PEP	Minimum Invest. £	Special offer
<b>HL Investment Trust Portfolio Trust</b>											
Hargreaves Lansdown (0272 767 767)	Investment trust units	2	Yes	Yes	5.75	1.5	No	2,500	5.75	1.5	Yes
Unit trust investing in a wide range of UK and overseas investment trusts, with a 5 per cent annual withdrawal facility.											
* 1 percentage point discount on investments over £5,000; 1.5 over £10,000; 2 over £20,000; and 3 over £50,000.											
<b>Managed Growth Fund</b>											
MSG (071 626 4588)	Fund of Funds	1	Yes	Yes	5	1.5	No	£500	0	1.5	Yes
MSG's second fund of funds, this one concentrates on long-term growth. It is also the second M&G no-initial-charge PEP											
** Withdrawal charges on a sliding scale from 4.5 per cent in the first year down to 0 after the end of the 5th year.											
<b>Global Growth PEP Fund</b>											
Martin Curle (0800 838776)	International Growth	1	Yes	Yes	5.25	1.5	No	£1,000	5.25	1.5	Yes
Launched to attract the PEP market this is more UK and Europe-oriented than the company's international growth fund, ranked 14 of 115 funds over 6 years											
* 2 percentage point discount for investors transferring from other PEP schemes											

## Fixed rates gamble

Conventional wisdom is under attack in the savings market. As an illustration, try this two-part quiz:

1. When interest rates are rising, is it a good time to fix your deposit interest rate?  
2. If base rates are 5.75 per cent, should you leave your money with someone offering up to 12 per cent?

A prudent investor would answer "no" to both. After all, if interest rates are increasing, it is better to leave savings free to climb up on the back of rising base rates. Besides which, if someone is offering a return that seems too good to be true, it probably is. Yet a number of high street banks and building societies are offering comparatively high fixed deposit rates. The table, provided by Moneyfacts, shows the most competitive on offer. The terms are between three to five years, but whether the interest rates end up being a good deal depends on the behaviour of base rates over the period.

Simon Briscoe, UK economist at S.G. Warburg, expects three rises in base rates - of half a percentage point each time - by the end of next year. This would take them to just over 7 per cent. He believes the usual cycle of sharp interest rate rises is over for now and that the UK economy will have a lengthy period of relatively low growth.

John Marsland, senior UK economist at UBS, is less optimistic about a low interest-rate era. While he thinks the economic basics point to base rates of 7 to 8 per cent next year, he believes the relative weakness of sterling actually will propel them to 10 per cent by the end of 1995.

Taking a fixed rate is a gamble although those on offer suggest that even if you do lose out, it should not be by much. The question remains: which is best - a flat fixed rate or an escalator bond, paying pre-determined rates which increase over the term of the investment? In general, the escalator bonds pay a higher annual rate - but your money is tied up for longer.

The highest annual average of 9.3 per cent gross comes from Julian Hodge, a small, privately-owned, Cardiff-based bank. For those who prefer building societies, the annual average rates are 9.2 per cent at Portman or Stroud & Swindon, 9.08 at Woolwich, and 8.85 at West Bromwich.

The main drawback with fixed-rate deposits is the withdrawal penalties. Indeed, Woolwich does not allow any early withdrawals on its three-year bond and none in the first two years of its escalator bond. After that, withdrawals cost you 90 days' loss of interest.

There are other products offering high fixed rates of interest; the Highest Rates for your Money table shows the Confederation Bank is paying 9 per cent on its fixed-rate Tessa.

But this is available only to those who put up £3,900 (to be drip-fed into a Tessa) compared with just £500 required by Portman or Stroud & Swindon. The Tessa has the important advantage of being tax-free as long as capital is not with-

drawn during its five-year term, whereas the fixed-rate bonds are taxable.

Higher-rate taxpayers may prefer to invest in tax-free National Savings certificates. The 42nd issue pays a tax-free 5.85 per cent a year compound

when held for five years, a return which is equivalent to an annual 9.75 per cent gross for a 40 per cent taxpayer.

Scheherazade Daneshkhoo

## HIGHEST RATES FOR YOUR MONEY

	Account	Telephone	Notice/term	Minimum deposit	Rate %	Int. paid
<b>INSTANT ACCESS A/cs</b>						
Confederation Bank	Liquidify	0438 744500	Instant	£100	5.25%	Yy
Manchester BS	Money-by-Mail	081 839 5545	Postal	£1,000	5.80%	Yy
Skipton BS	3 High Street	0756 700511	Instant	£2,000	6.10%	Yy
Northern Rock BS	Go Direct	0500 505000	Instant	£20,000	8.65%	Yy
<b>NOTICE A/cs and BONDS</b>						
Bradford & Bingley	Direct Notice	0345 248248	30day(P)	£1,000	6.15%	Yy
Universal BS	1 Yr High Option	091 232 0973	90day	£10,000	7.00%	Yy
Halifax BS	Special Reserve	0422 333333	1 Yr Bnd	£10,000	7.35%	OM
Chelsea BS	Four Year Fixed	0600 272505	31.12.98	£10,000	9.00%	F Yy
<b>MONTHLY INTEREST</b>						
Britannia BS	Capital Trust	0538 391741	Postal	£2,000	5.70%	My
Bradford & Bingley BS	Direct Notice	0345 248248	30day(P)	£10,000	6.45%	My
Northern Rock BS	Postal 80	0500 505000	60 Day	£10,000	6.55%	My
Chelsea BS	Four Year Fixed	0600 272505	31.12.98	£10,000	8.65%	F Yy
<b>TESSAs (Tax Free)</b>						
Confederation Bank		0438 744500	5 Year	£3,900	9.00%	F Yy
Market Harborough BS		0858 483244	5 Year	£9,000	7.60%	Yy
Holmedale BS		0737 245716	5 Year	£1	7.40%	Yy
Tipton & Cooley BS		021 557 2551	5 Year	£1	7.35%	Yy
<b>HIGH INTEREST CHEQUE A/cs (Gross)</b>						
Woolwich BS	Current	0800 400900	Instant	£500	3.50%	Yy
Halifax BS	Asset Reserve	0422 333333	Instant	£5,000	4.85%	Oy
Chelsea BS	Classic Postal	0600 717515	Instant	£2,500	6.35%	Yy
<b>OFFSHORE ACCOUNTS (Gross)</b>						
Woolwich Guernsey Ltd	International	0481 715735	Instant	£500	5.75%	Yy
Confederation Bank Jersey	Flexible Inv	0534 608060	60 Day	£10,000	6.45%	Yy
Derbyshire (QW) Ltd	Ninety Day	0624 883432	90 Day	£10,000	6.55%	Yy
Halifax Intl (Jersey)	Fixed Rate	0534 59840	3 Year	£10,000	6.50%	F Yy
<b>GUARANTEED INCOME BONDS (Net)</b>						
AG Life FN		081 880 7172	1 Year	£15,000	5.70%	Yy
AG Life FN		081 880 7172	2 Year	£15,000	6.45%	Yy
Laurel Life FN		0452 371371	3 Year	£50,000	5.90%	Yy
General Portfolio FN		0279 468639	4 Year	£10,000	6.80%	Yy
EuroLife		071 454 0105	5 Year	£10,000	8.00%	Yy
<b>NATIONAL SAVINGS A/cs &amp; BONDS (Gross)</b>						
Investment A/C			1 Month	£20	5.25%	G Yy
Income Bonds			3 Month	£2,000	8.50%	F Yy
Capital Bonds 1			5 Year	£100	7.75%	F OM
First Option Bond			12 Month	£1,000	6.40%	F Yy
Pensioners GIB 2			5 Year	£500	7.50%	F Yy
<b>NAT SAVINGS CERTIFICATES (Tax Free)</b>						
42nd Issue			5 Year	£100	5.85%	F OM
8th Index Linked			5 Year	£100	3.09%	F OM
Childrens Bond G			5 Year	£25	7.85%	F OM

This table covers major banks and building societies only. All rates (except those under heading Guaranteed Income Bonds) are shown Gross. F = Fixed Rate (All other rates are variable). OM = Interest paid on maturity. N = Net Rate. P = 6.80 per cent on £20,000 and above. Source: Moneyfacts, Laundry Lane, North Walsham, Norfolk, NR28 0BO. Readers can obtain an introductory copy by phoning 0832-500 665. Figures compiled on: October 21 1994.

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7 Other Services

8 Transport/Travel/Communications

9 Distribution/Retail/Wholesale

10 Extraction (Oil/minerals, etc)

11 Manufacturing/Engineering

12 Other (Please state)

13 Domestic Equities

14 International Equities

15 Offshore Deposits

16 Property

17 Bonds

18 Precious Metals/Gems

19 Unit Trusts/Mutual Funds

20 Other International Investments

21 None

Which of the following do you have?

1 Credit Card (e.g. Visa)

2 Gold Card

3 Charge Card (e.g. Amex)

4 None

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## FINANCE AND THE FAMILY

## A bond boom that went bust

Antony Thorncroft charts the rise and fall of pre-revolutionary Russian paper

Last week on these pages, John Thornhill was describing the pitfalls and the potential pay-offs from investing in the fledgling Moscow Stock Exchange. It must be one of the most speculative propositions on offer but at least one merchant bank, Morgan Grenfell, sees potential returns that would match Tokyo in the 1980s.

But what of people holding Russian stocks and bonds dating from pre-revolutionary days? How do they stand?

In the 19th and early 20th centuries, the Russian government, along with companies and cities, looked to the west – and, in particular, the UK – for most of its investment revenue. Bond and share certificates, issued by the City of St Petersburg or the Moscow-Kiev Railway, have been accumulating dust in bank vaults and deed boxes in the UK for many decades. Have they any value?

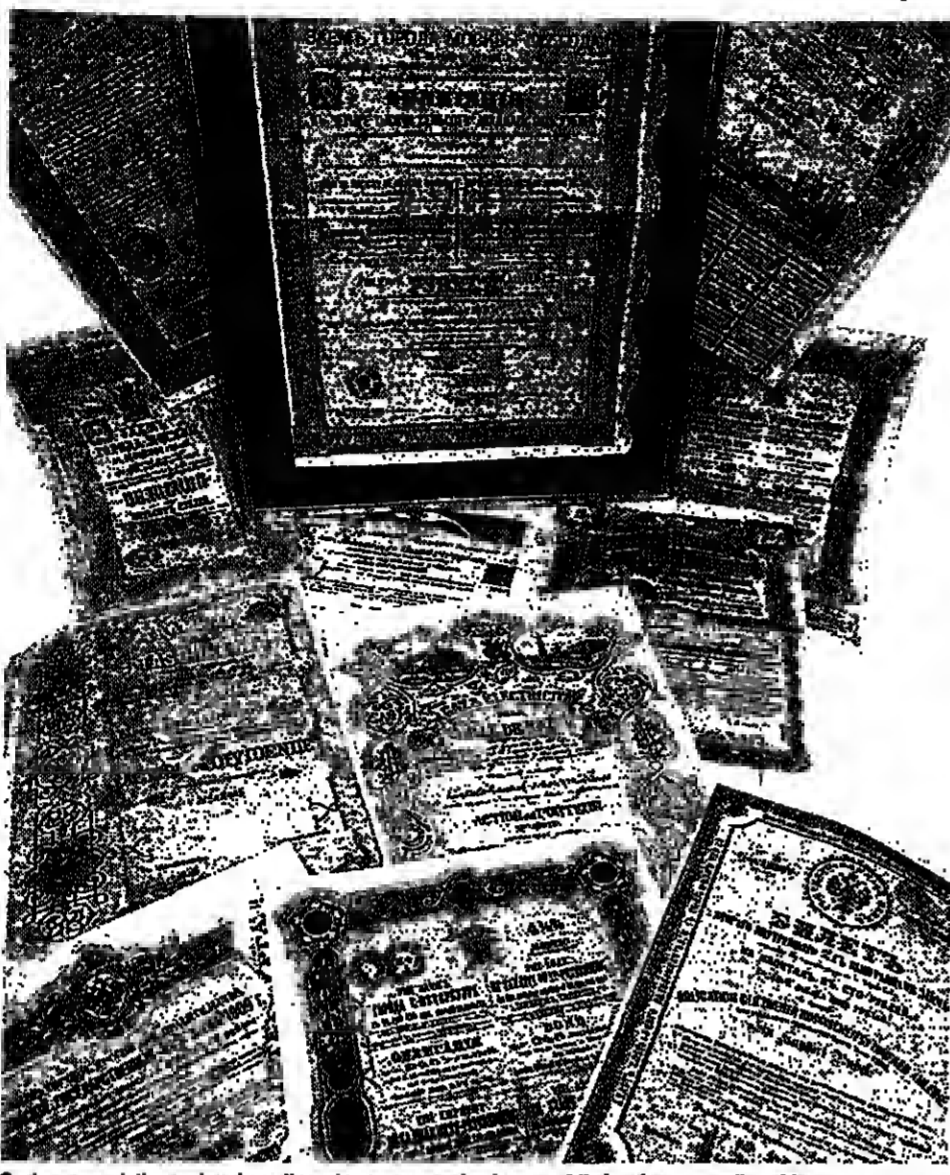
Yes – as a collectable. They are a thriving part of scrippophily, a term coined in 1978 following a newspaper competition to find a name for the new hobby of collecting old bond and share certificates. The craze started in Germany early in the 1970s and, for a brief period between 1978 and 1981, was itself the source of a speculative boom comparable with the railway mania of the 1840s or the Californian gold rush.

Riding the better-skelter was Stanley Gibbons. This respected stamp dealer acquired from banks and brokers millions of old share certificates, bonds and treasury bills and began selling them to the public.

Fuelled by a City boom, it drew in thousands of new collectors who were persuaded they were acquiring a decorative document that was ideal to cheer up an office wall and could also be a good investment. Perhaps the certificates might be redeemed one day; certainly, new collectors in the frothy market place would force prices up.

Indeed, prices did move up fantastically for months. In October 1979 alone, Gibbons sold £700,000 worth of material and, at the peak of the boom, one 1898 Chinese bond was, reputedly, sold for £15,000. Today, in perfect condition, it might sell for £3,000 – for Gibbons had over-reached itself.

When the collapse came, it was sudden and final. The new management team at the company considered accepting an offer of £20,000 for its entire unsold stock, numbering over 3m documents. In the end, consultant Leslie Tripp was called in to clear up the mess, and he raised more than £100,000 by



Such pre-revolutionary bonds as these have now regained some of their value – as collectables. Trevor Humphries

selling the documents around the world to dealers and collectors.

Then, an odd thing happened. In 1986, the Soviet Union, motivated by perestroika and a wish to join the International Monetary Fund, offered to redeem the old Russian bonds and shares. Money was unfrozen in British bank accounts to finance the deal. And while it was thought originally that holders would receive just 10 per cent of the face value of the documents,

the take-up in the end was not as great as anticipated and they got 54 per cent.

This meant that anyone who had bought a £100 Russian bond from Stanley Gibbons in 1979 for perhaps £20 would have been able to cash it in for £54. China and other east European governments also made once-and-for-all offers to redeem stock late in the 1980s.

Yet, some speculative opportunities remain. East German cities have not settled and some of those owing City of

Dresden £100 bonds of 1927, for example, might get a happy surprise one day – although only if they bought such certificates in recent years. At the height of the 1980s boom, a good example might have cost £350; recently, they could be obtained for £10.

There is also talk that Russia might come to an agreement over pre-revolutionary shares sold in France, which has boosted prices there. And, as Fidel Castro ages, US collectors of Cuban bonds and shares are getting excited about an eventual deal.

To a very great extent, though, the investment element has disappeared totally from scrippophily and dealings have become the passion of just a few thousand collectors, many of whom work in the City of London or in banking.

Most buyers are looking for an attractive wall decoration. Tripp – who now runs Scrippophily International Promotions and acts as an adviser to Phillips, which holds three specialist auctions a year in this area – says typical clients are western oil executives sent to work in Russia who like to hang share certificates of pre-revolutionary Russian oil companies in their offices there.

Prices are still very low. An attractive St Petersburg 1913 £20 bond can be acquired for £22; because they are rarer, a £100 bond might cost £40. Condition these days is all important, but many still are first.

Russian railway bonds are much collected. At Phillips' auction on October 7, a lot of 72 railway bonds – including Moscow-Smolensk 1889 and Black Sea-Kuban 1911 – sold for just over £500. Three city bonds, including City of Kiev £100 of 1914, made less than £100.

There is little to suggest that certificates will yet again become the centre of a speculative frenzy. But as capitalism takes hold in Russia, eastern Europe and even China, millions of potential new collectors of old shares and bonds will become available.

Even without this extra demand, though, old certificates remain intriguing, attractive and cheap mementoes of business history.

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## Where the Revenue is wrong

In 1993/94, I had capital gains of £8,878 and losses of £2,208, all after appropriate indexation. In other words, I was £1,130 below my annual CGT allowance of £8,800. Thus, I reported chargeable gains of "£5,800 or less". But I am not clear, after reading several tax handbooks, whether I can carry the £1,130 forward to future years.

■ On the basic point, the Revenue maintains steadfastly that the answer is no. But we (and other experts) believe that the House of Lords will one day confirm our reading of the law – namely, that the answer is qualified yes (depending upon the amounts of the individual allowable losses).

The practical problem is that few taxpayers can afford to fight the Revenue up to the House of Lords in order to establish what the law really is (as distinct from what the Revenue says it is).

A subsidiary point arises if any part of your "losses of £2,208" relates to disposals after November 29 1993. If there were any (apart from disposals which produced a chargeable gain after indexation relief), you might like to come back to us with the full facts, figures and dates because the carry-forward rules for indexation losses are different from those for allowable losses.

So far as we know, the Revenue's views on carrying forward 1993-94 indexation losses

to 1994-95 (only) are the same as our own: it is only on the carrying forward of allowable losses that we differ (and have indeed differed since 1965).

## Challenging an assessment

My company vehicle was bought new in October 1991 for £16,000 at a time when the list price was £19,750. My tax inspector has now issued revised assessments for the past three tax years.

He maintains that the discount was given at the individual dealer's discretion, and says dealer discounts are not taken into account when calculating the market value for tax assessment purposes.

Can I challenge him? I believe many company car drivers may be in a similar position.

■ You really have no hope of success in your appeals without professional assistance. You must also be prepared to go to the House of Lords because the Revenue is virtually certain to refuse to accept defeat before the Special Commissioners, the High Court or the Court of Appeal.

The first step is probably a talk with the company's auditors or tax advisers. You might well decide that the cost of a successful appeal would probably exceed the amount of tax at stake.

It is on that basis, of course,

Q&A  
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that the Revenue wins most of its battles with taxpayers for, despite the Taxpayer's Charter, it uses its financial strength to discourage objections to its decisions.

## No tax on money gifts

My question concerns inheritance and capital gains tax. Can my husband and I give

our children money now – to buy better houses, cars etc – without paying more tax?

■ He says any money spent like this is liable for tax but common sense tells me this cannot be true. After all, it is our money and tax was paid when it was earned.

■ If you give shares etc to your children, you will be liable to pay CGT as though you had sold them to the children at market value. But there will be no CGT on gifts of money (sterling). In either case, though, there could be an IHT liability if you were to die within the following seven years.

Ask your tax office for the free pamphlets CGT14 (Capital gains tax: an introduction) and IR45 (What happens when someone dies).

We take it all your children are over 18. If not, their income from any gifts could be taxable as though it were your own.

## CGT INDEXATION ALLOWANCES: SEPTEMBER 1994

Month	1982	1983	1984	1985	1986	1987	1988
January	-	1.755	1.670	1.580	1.507	1.450	1.404
February	-	1.748	1.663	1.577	1.501	1.444	1.398
March	1.825	1.745	1.658	1.582	1.499	1.441	1.393
April	1.789	1.720	1.636	1.530	1.485	1.424	1.371
May	1.778	1.713	1.630	1.523	1.482	1.423	1.368
June	1.772	1.709	1.626	1.520	1.483	1.423	1.369
July	1.771	1.700	1.627	1.523	1.487	1.424	1.359
August	1.770	1.692	1.612	1.519	1.482	1.420	1.344
September	1.772	1.685	1.609	1.519	1.475	1.416	1.338
October	1.763	1.679	1.599	1.517	1.473	1.409	1.324
November	1.754	1.670	1.594	1.512	1.460	1.402	1.316
December	1.757	1.669	1.596	1.510	1.458	1.404	1.315

Month	1989	1990	1991	1992	1993	1994
January	1.308	1.213	1.114	1.089	1.051	1.026
February	1.297	1.206	1.108	1.084	1.045	1.020
March	1.291	1.194	1.104	1.081	1.041	1.016
April	1.289	1.159	1.089	1.045	1.031	1.006
May	1.281	1.149	1.086	1.041	1.028	1.002
June	1.258	1.144	1.081	1.041	1.028	1.002
July	1.255	1.144	1.084	1.045	1.031	1.007
August	1.252	1.132	1.081	1.044	1.029	1.002
September	1.244	1.121	1.077	1.040	1.022	1.000
October	1.234	1.113	1.073	1.038	1.023	1.000
November	1.224	1.115	1.089	1.038	1.024	1.000
December	1.221	1.116	1.089	1.042	1.022	1.000

Source: Inland Revenue

## Your CGT

The table shows CGT indexation allowances for assets sold in September. Multiply the original cost of the asset by the figure for the month in which you bought it. Subtract the result from the proceeds of your sale; the balance will be your taxable gain or loss. Suppose you bought shares for £5,000 in September 1985 and sold them in September

1994 for £13,000. Multiplying the original cost by the September 1985 figure of 1.519 gives a total of £7,595.

Subtracting that from £13,000 gives a capital gain of £5,405, which is within the CGT allowance of £5,800. If selling shares bought before April 6 1982, you should use the March 1982 figure. The RPI in September was 145.0.

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## TRAVEL

## Sweet-natured and time-warped

Nigel Andrews visits Graz, an Austrian town that is closer to Italy than to vibrant Vienna

At 11am the two tall multi-paned windows opened. A leather-hooped man appeared in one, holding high a foaming tankard. A dimly-lit woman appeared in the other, clasping a white handkerchief. They danced on the window ledges to traditional Austrian tunes. Then, at 11.05, they went back in and the windows closed.

Such is life in Graz, Austria. These two near-life-size figures perform this glockenspiel show - one of the most endearingly dotty in Europe - twice daily at 11am and 6pm. For us foreigners, watching it is just one of those bizarre things we do if we have arrived by design or accident in Austria's second city.

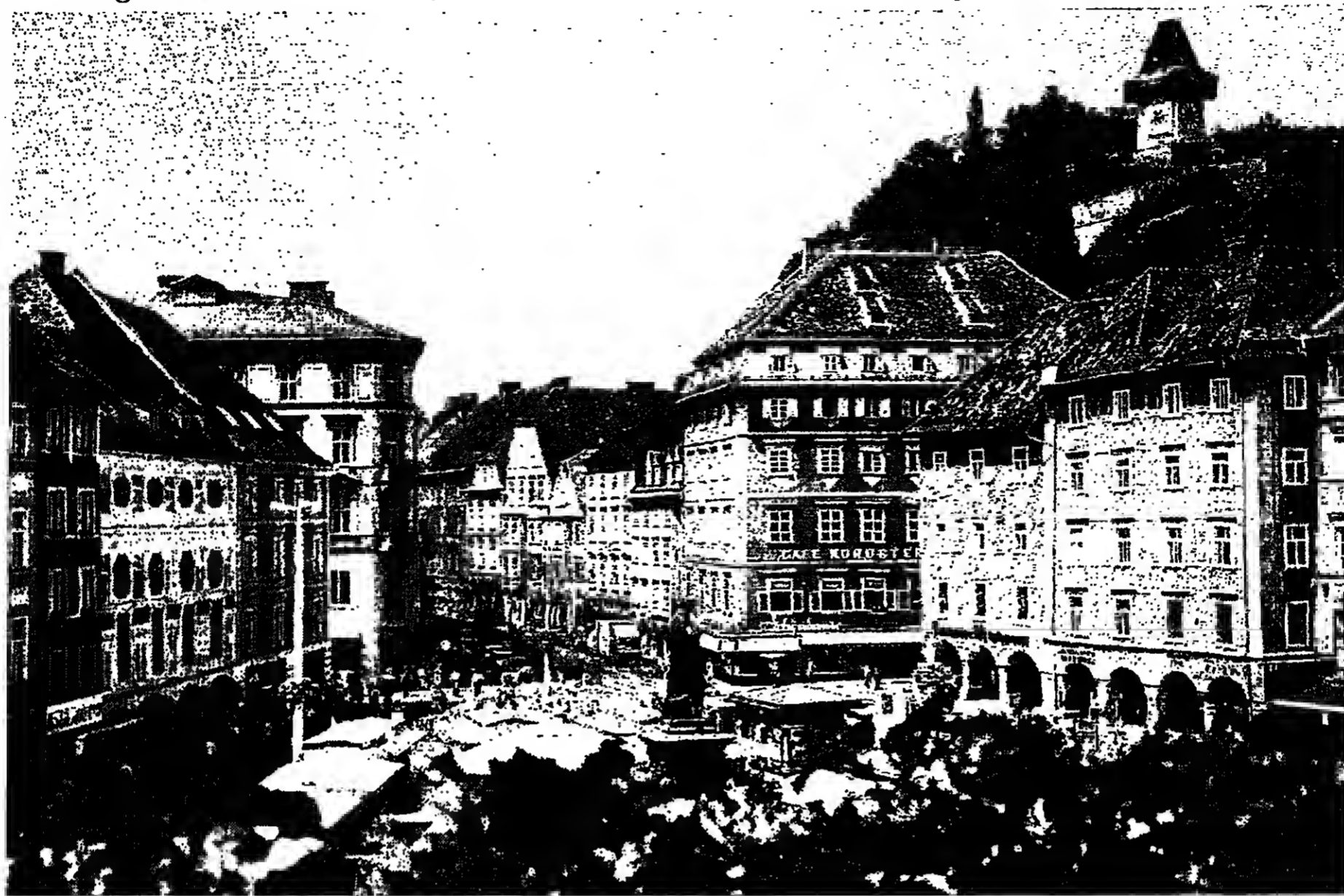
Graz, we soon discover, is a charmer. It has a bewitching old town and a no-less hewitching access to surrounding villages landscaped as if by the production designer of *The Sound of Music*. I had driven to the city from Venice, just to have a roundabout return route to England after the film festival. Also, my Venice hotelier's wife came from Graz and had waxed poetic. I booked in at the five-star Grand Hotel Wiesler, which gazes across the pretty, fast-flowing River Mur into the onion domes and steeples of the old town and - swirl your eyes to the left from the Wiesler lay window - up at the majestic Schlossberg.

This inner-city crag is studded with bits of history and architectural oddity, including what may be the most handsome clock tower in all the German-speaking countries.

This is not the timepiece that boasts the eccentric dance: that is down in the mazy town in Glockenspielfeld. The Schlossberg clock is set into a tall creamy-white four-sided tower and was built so that the time could be read across the city. It was one of the landmarks saved by the town - expensively - when conquering Napoleon made ransom demands. Graz also paid up to save the elegant 15th-century clock tower, across the way on the Schlossberg, with its four-ton Liesl bell.

Graz is embossed with history. It spent 200 years holding out against the Turks. It was an imperial seat of the Habsburgs from the 14th to 17th centuries. Later it flourished in the 19th century under Archduke Johann, who has a fountain named after him in the Hauptplatz.

Yet grandeur in Graz jostles with an endearing laidbackness. I became convinced, as I puffed up the Schlossberg and down again and then wandered through the *alte Stadt*, that Napoleon would not have bothered to raze the place anyway. It has such sweet-naturedness. The winding, imprecise lanes of the old



The old town in Graz; grandeur there jostles with an endearing laidbackness

town match the winding, imprecise lines of the people's faces.

These are conservative Austrians lost in a provincial centre closer to the wilds of alpine Italy, and to the former Yugoslavia, than to vibrant Vienna. Walking the time-warped streets, you find yourself in a waking sleep from which you are aroused now and then only by the shrill alarm of a trolley-car, that silent panther of the streets, as it all

but runs you down in the middle of the road. A Graz citizen once saved my life by hissing a helpful "Ach-tung!"

The old town is a preserved marvel. In the pedestrianised main street, the Herrengasse, every building has its own history or aesthetic signature. Seek out Number Three, the "Painted House", its facade a riot of 18th-century frescoes. Check out the Renaissance Landhaus, with

its ornate Italian-style courtyard; and next door the Landeszeughaus (provincial arsenal) with its 16th-century armour and weaponry collection: enough guns and swords (30,000) to stock a Hollywood history epic.

And around the Herrengasse, take in the baroque succosa Haus Lauger and the threadwork of medieval streets around the Gothic Franziskanerkirche (Franciscan church).

For still-hungry culture vultures there is the Landesmuseum, stuffed with Brueghels and Cranachs, and with furniture and objects dating back to the middle ages.

Then take an afternoon off to leave the city altogether. We are of course in Styria - Austrian, "Steiermark" - where you expect Julie Andrews to prance over every hill. Drive out to Thal, the nearest truly rural village, and you have seldom

seen anything so shimmeringly beautiful. The air is clear. The grass is a hallucinatory green. Cows and horses dapple the flanks of rolling hills. Plum and chestnut trees sway in late September under the weight of late-summer produce.

I was lured to Thal by reports of a strange and beautiful church. The Ernst Fuchs-designed chapel, cresting a gentle hill opposite Thal's only school, is indeed a stunner. It

is built in azure-blue corrugated metal. Its bold, even kitschy post-modernism - the style is officially titled "Phantastische Realismus" - is all the more striking for being attached to a traditional Austrian-style spire.

Inside, Fuchs has had several brainstorms. The floor and seats are impastoed with polishes, making the interior resemble some rioting country stream-bed. Meanwhile rainbow colours beam from the ceiling and mystical murals (Samuel Palmer out of Holman Hunt) brood around the altar.

This is not the only landmark Thal offers. If you come out of the church and stare over the hills you may see, a mile away, a white three-storey house without a number on it or any distinguishing mark. It sits across from a hill covered with castle ruins. It is Arnold Schwarzenegger's boyhood home. Not a lot of people know this: do not tell Arnold, if you meet him, that I sent you.

Every summer, Thal's large lake, the Thalersee, swarms with visitors and is heaven to sit by in almost empty September. You clutch a beer and gaze at the ducks. You think that, good heavens, this was when young Master S first started limbering up to become a bodybuilder.

Back in Graz, the sky is salmon-pink and copper over the old town and I saunter out for supper. Seduced by location, I make the mistake of eating at the foot of the stone stairway zig-zagging up the Schlossberg's sheer west cliff.

The Café Tourist Trap, as we shall call it, serves a piece of rancid shoe leather "in the Styrian style". This means in this case, wrapped in a garlicky-sweet sauce of rare repulsiveness. Good Styrian food is available, though, in other cafes and restaurants: one being the Hof Keller.

And you can always look forward to the Hotel Wiesler's buffet breakfast: an outrageous largesse of bacon, eggs, ham, sausage-meat, cheeses, Danish pastries, cereals, yoghurts... Later, too, I have a Wiesler club sandwich, which is outstanding. If you have a dressed salad with it you can taste the local speciality, pumpkinseed oil.

I am beginning to like Graz. But oh dear, it is time to go. The Wiesler will soon be valuing forth my car. I go out for one last mental-snapshot walk along the Herrengasse and then back over the purring Mur to the Hotel.

I have nearly lost my life to several trams. I have frequently lost my breath climbing up Navarone-like cliffs. I cannot understand German, at least as spoken with a Styrian accent. I have no regrets: I shall be returning to Graz as soon as possible.

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## Minding Your Own Business

## Out to prove that Esops are no fable

The meeting was protracted, tense and in need of light relief. It eventually arrived. A noisy, difficult shop steward suddenly got up and walked out saying he wanted no more plans to introduce an employee ownership scheme into the bus company.

"Unfortunately in the heat of the moment he took the wrong door and ended up in the broom cupboard," said Nigel Mason, a director with Capital Strategies.

"The incident broke the ice perfectly. There was instant hilarity and the atmosphere changed completely. A few minutes later the man emerged from the cupboard in a different frame of mind and negotiations were resumed. He eventually put far more than the minimum investment into the scheme."

Mason, 35, and his team of Capital Strategies specialise in employee buy-outs and introducing employee share ownership plans (Esops) into existing organisations. In spite of being small they claim to be leaders in the field.

Since the company started in January 1992, Mason and his team have arranged Esops for organisations ranging from a Scottish paper-making company with 1,400 employees to a 10-man Midlands retailing operation in which the husband and wife owners wished to relinquish control gradually.

They have advised 10 bus companies on Esop schemes and completed schemes with six of them. Since the beginning of this year the company, which has offices in a former print and board warehouse in Shoreditch, London, has followed a slightly different tack.

"We realised we had pretty well exhausted the bus company market. Our experience of the private sector showed it to be more diffuse and difficult to find the right sort of companies to target than public sector organisations that were making the transition into the private sector, so we have been looking hard at the latter," said Leon Boros, finance director.

Boros, 32, and his co-director Ann Tyler, 38, a lawyer, decided to direct the fourth member of the fee-earning



team, Simon Smith, towards a six-month marketing exercise developing business in the public sector. The company could afford this. It had a capital base of £71,000, no borrowings and a profit at the last year end of almost £100,000 on a turnover of £400,000.

The company believes the exercise has paid off. Smith has been looking hard at local government services such as waste disposal, accountancy and financial services, ground maintenance and architectural and planning services, all of which are now exposed to competitive tender. A solution for many is to arrange employee buy-outs or joint ventures with employees.

Smith is about to conclude a contract for Capital Strategies to advise one of the 25 franchisees that will eventually manage segments of the railway system and, recently, he and Tyler spent two days at Hem Hill colliery, Stoke-on-Trent, conducting interviews with 150 miners and surface workers for Coal Investments, which leases four mines from British Coal.

Capital Strategies is about to recruit two new fee-earning staff because of Smith's work. His efforts, which were non-fee-earning, mean that profits

are likely to dip below the £100,000 level this year.

"This was to be expected. We now have more support staff and a higher cost base from which to calculate. From our experiences in this field before we came together we all know that the likely trading pattern means there will be one good year and one bad year," said Mason.

The company's policy is to plough back profits at the end of the year. Its main obligation is to pay a dividend on the £35,000 working capital put up initially by Scott Bader, a long-established employee-owned business based in Northamptonshire that manufactures synthetic resins.

Scott Bader is chaired by a former joint managing director of British Rail, Jim O'Brien, who is the non-executive chairman of, and an occasional part-time consultant for, Capital Strategies.

The four believe employee ownership will grow. "In the US there are 10,000 Esops representing 12 per cent of the private sector workforce. In this country, with an economy that works in a broadly comparable way in the mid-sized sector, there are about 150 companies with more than 50 employees that are more than 30 per cent

owned by employees," said Mason.

Mason said that in the US figures showed the investment performance of quoted companies, which were more than 10 per cent employee-owned, outperformed the main Standard & Poor's US index by more than 25 per cent.

Capital Strategies operates like any other consultant, charging negotiated fees. For some jobs however they have to accept work on a contingency basis, which means "no success, no fee".

"Our appetite for this kind of more risky work is limited, but we have to be competitive with some of the big city accountancy firms who will sometimes take on work of this sort on a contingency basis," Boros said. "We have come to live with risk."

"However, as we grow, while the risks associated with individual big projects will get greater, the spread of our portfolio will reduce overall risk."

Capital Strategies has recently attracted an investment of £150,000 in the company from the Baxi Partnership, the UK's biggest employee-owned manufacturing company.

Between them Baxi and Scott Bader jointly own 32 per cent of the equity. In addition Baxi has advanced the money to set up a £150,000 revolving loan fund to assist managers and employees to investigate the possibility of employee buy-outs using the services of Capital Strategies.

The other important activity is the establishment of a £20m venture capital fund by means of which institutions would be able to invest in employee-owned companies.

"We have found part of the finance and we are looking for a professional fund manager to administer it," Mason said. "This will be the first fund in the UK dedicated to employee buy-outs, and of course the plan is that we shall be able to place Capital Strategies' clients to it. It's all part of our plan to convince people that in the UK Esops are no fable."

Capital Strategies, 39 Charlotte Road, London EC2A 3QT. Tel: 071-631 3745.

Clive Fewins



## FOOD AND DRINK

Wine

## Just a little local difficulty

Jancis Robinson reports on a sour taste in the northern Rhône

Does France's oldest wine region need an *enfant terrible*? Almost certainly not, but never mind. Michel Chapoutier shows no signs of either growing up or calming down, which makes life for the rest of us extremely entertaining.

His neighbouring vine growers on the famous, vine-covered hill of Hermitage in the northern Rhône Valley just south of Lyons are less amused. Indeed the atmosphere in the tiny, wine-dominated town of Tain l'Hermitage, where all but one of the famous names of the Rhône are based, has become distinctly vinegary.

The trouble with young Chapoutier, who took over this substantial family business from his father as recently as 1989, is that what he makes up for in fervour, he lacks in statesmanship. He is dimonitive, wears a swot's pebble glasses, has a rare passion for irony and visibility, invariably unsuccessfully, to control his tongue.

He is utterly besotted with biodynamics, the Steiner-inspired farming techniques which involve

regenerating the soil in harmony with astrology. He is also convinced that low yields are the key to wine quality, and usually accompanies his tasting notes with impressively low hectolitre-per-hectare statistics.

Michel Chapoutier is equally convinced, however, that most other producers in the northern Rhône (including his father Max) have got it wrong, and rarely misses an opportunity to point this out.

Things came to a head this summer when Robert Parker, the influential American wine critic, clearly much taken with the intensely concentrated "new" Chapoutier style, printed Michel's complaints that during the difficult, wet 1993 grow-

ing season the chemicals used by neighbouring vine-growers affected the margins of his vineyards, leaving them vulnerable to the fungal diseases which ravaged many non-biodynamic vineyards.

The result was an intemperate letter to Parker from the *crème de la crème* of Hermitage, including Gérard Jaboulet, Chave, and Delas, vilifying Chapoutier, claiming that his Hermitage vineyard had in fact been treated with weedkiller, and had been sprayed by helicopter. These other growers also included some figures which suggested that Chapoutier's average yields were considerably higher than he claimed.

Now Michel Chapoutier has

issued his response in this dispute between the most prominent inhabitants of Tain l'Hermitage (population 5,000), all of whom work cheek by jowl.

He must have chuckled at the helicopter accusation, for of course there is nothing essentially anti-organic about heli-spraying – indeed the fanatical Lalou Bize-Leroy, "the queen of Burgundy", applied several times by helicopter to her world-famous vineyards last year.

The weedkiller claim is furiously rejected by Chapoutier and described as one of the most serious. His reply also contains some laborious play with statistics, notably with red and white wine areas

as factors, to demonstrate that Chapoutier's yields in Hermitage were a relatively modest 33.15 hl/ha in 1993 (in Châteauneuf-du-Pape just 20.46 hl/ha).

The rain, which also dogged this year's harvest in the northern Rhône, is unlikely to wash away the issues involved in this dispute, however. Gérard Chave describes Chapoutier's response as "Unbelievable. I have never seen anything like this in the whole of my professional life."

Chapoutier acknowledges in his reply that he is widely criticised for being young and passionate, and claims that it is his youth which spurs him to take a long-term view, embracing the methods and low

yields which he believes will preserve the good name of France's great wine appellations.

What is interesting, he concludes, is to ponder the real motivation of his angry neighbours. With the irritating tunnel vision of any young revolutionary, he suggests they are propelled by fear of these "new" techniques, and the sacrifices that will be necessary to implement them.

In modern viticulture, radicalism means a return to traditional roots, a rejection of the commercial agro-chemistry which has transformed vineyards in the last three decades. In winemaking too Chapoutier is notable for an attachment to ancient methods, particularly the

much-photographed twice-daily *pigeage*, during which four muscley legs stomp down grape skins in the firm's unfashionably open-topped, wooden fermentation vats. Certainly the new Chapoutier wines, from 1989 onwards, are impressive. They are refreshingly wild and intense (just like their maker), the sort of dense essences that require good cellaring and careful handling.

And they are available in the sort of quantities that propel all but the most limited bottlings into major distribution (Marks and Spencer even tried its hand with a Chapoutier Rasteau but it was far too risqué for it). Majestic, Oddbins, Thresher, Adams of Southwold, Avey's Bristol, Gauntleys of Nottingham, Justerini & Brooks of London SW1 and Edinburgh and Tanners of Shrewsbury all stock some wines from the new regime.

What young Chapoutier needs is an adviser, less a Max Clifford publicist than Marcel Guigal, the softly spoken wizard of Côte-Rôtie 40 minutes' drive upriver. "Calm down," has been his advice to all.

Entertaining at home

## How to give that perfect dinner

Inviting friends for a meal? Chef and author Ken Hom has some tips for up-and-coming hosts

Twenty years ago, when I was much younger and more naive, I entertained extravagantly. My dinner parties would have a minimum of 12 guests and no fewer than 12 courses. I would spend days preparing elaborate and obscure Chinese dishes.

I had much more time then and I had great pleasure and enjoyment preparing those meals. However, in the last eight years, with a heavy travel schedule and the pressures of a busy life, my style of entertaining has changed radically.

Now, I usually have no more than six guests and just three courses. My friends enjoy these intimate dinners as much as my lavish spreads of the past. Here then, is how I entertain today, simply but still elegantly, keeping the following tips in mind:

■ Invite friends you really want to see. Spending three hours at the dinner table with good friends is my idea of bliss. Remember, conversation and mix is almost as important as food and wine.

■ Do not invite the same guests all the time, it is nice to mix and match your friends. Never have a party with all the guests from the same profession, nothing is worse than talking shop all evening.

■ Do not skip any of the best ingredients and have good wines. This is vital if you have only three courses. Your chances of success are greater if your dishes are memorable.

■ Do not attempt new dishes, always entertain with tried and true recipes or dishes which you feel comfortable with. You do not need the additional stress of knowing whether the dish will be good or not.

However, you should feel free to mix and match dishes from different cuisines. For example, you could begin with a Chinese soup, then serve a lovely roast chicken with basmati rice, and perhaps a Thai stir-fry vegetable dish.

■ Avoid trying to impress your guests. I always think it is grander to make delicious simple food than to present pretentious mediocre dishes. There is no need to stick too rigidly to other people's rules about food, if you like fish with

red wine, then serve it as such. Remember to make dishes within the realm of home cooks. Chefs apart, I do not think your guests should expect you to be proficient in restaurant cooking. If you are making a Chinese meal, do not make more than two stir-fry dishes at any one meal. There are many recipes in the Chinese repertoire that are braised dishes, steamed, etc. and many can be prepared ahead of time.

■ Light meals are usually the best remembered ones. That means light or no sauces, avoid red meats, stick to fish or chicken. Nothing is worse than a heavy meal which can stay with you for the whole night.

■ Although I rarely use a microwave to cook, I have discovered that it does wonders to fish. It is as good as steaming the fish in the wok.

■ Soups, especially good ones are an elegant opening. I like them because I can make them days, even a week ahead. They freeze extremely well and re-heat beautifully. If you like cream soups, add the cream at the last moment.

■ Give your dinner a few moments of thought before you plan it. All too often, home cooks plunge into organising a dinner party without thought to the balance of the meal, logistics, etc. Think about how you would feel as a guest at this dinner. If your instincts tell you that the dinner will be good, chances are it will be.

■ Start the evening with champagne, hushies are always a festive start to any meal. It immediately puts everyone in a good mood and is an important factor that will determine how the rest of the evening will flow.

■ Buy the best. I especially like Louis Roederer – and when it is special occasion and I feel flush, I will have a bottle of Roederer Cristal. By the way, I have found for my Chinese dinner parties that champagne is the perfect drink throughout the meal. The acid and sweetness seems to balance out the oils and flavours that one finds in Chinese cookery.

■ Do not clutter the table with a huge bouquet. Nothing is worse than trying to converse with flowers in your face. Place one flower at each table setting for a nicer and more

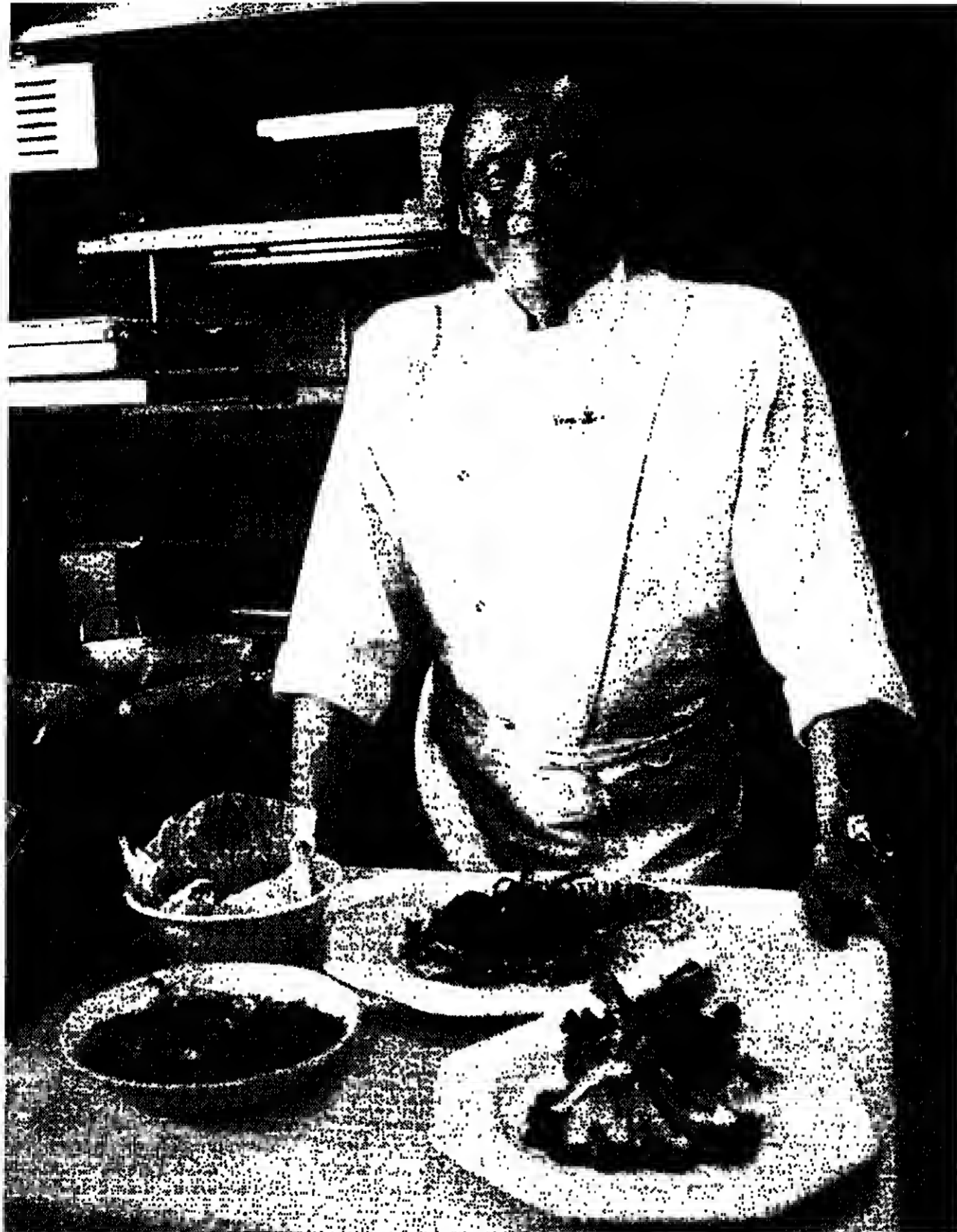
elegant effect.

■ Finally, never panic. If something does not turn out the way you thought it should, do not mention it. Patch it up as best as you can, smile, have another glass of champagne and enjoy yourself.

Here are two recipes from a typical dinner party at my house, they are easy to make and taste wonderful.

**DOUBLE STEAMED MUSHROOM SOUP**  
Double steaming involves an unusual method of making a rich but clear soup. You must first prepare the soup in its own covered pot, so that it is producing its own steam.

Then you place it on a rack over boiling water in another pot, cover the pot tightly and steam the soup for three hours. This technique is usually reserved for the finest ingredients with the most delicate flavours and textures. Steaming is a gentle cooking method



Ken Hom: makes elegant food at home as well as in the restaurant

that works best with such foods.

In this soup, the highest quality of dried mushrooms that money can buy are used. They should be thick so that they can absorb all the flavours from the long steaming process. The result is a clear, concentrated and rich consommé replete of the essence of mushroom. All the work can be done in advance, in fact, the soup can even be frozen a week ahead and re-heated. This soup would make an earthy and elegant opener for any meal.

50g/2oz finest quality dried Chinese black mushrooms; 900ml/2 pints/4 cups chicken stock; salt to taste.

Soak the mushrooms in warm water for 20 minutes. Then drain them and squeeze out the excess liquid. Remove and discard the stems.

Bring the chicken stock to a boil in a large pot. Pour the stock and the mushrooms into

a pot or heatproof soup tureen. (This is the first steaming process.) Cover the pot or tureen and set it on a rack inside a large steamer. Keep this larger wok or pot tightly closed. Steam continuously for three hours. Replenish the hot water from time to time as necessary.

Adjust the seasoning with salt to taste and serve at once or allow it to cool thoroughly and freeze until it is needed.

**QUICK STEAMED SALMON FILLETS**  
You can steam this dish in a wok or microwave. It cooks to perfection in the microwave.

1½lbs/700g salmon fillets; 1 teaspoon salt; ¼ teaspoon freshly ground white pepper; 1 tablespoon Chinese Shaoxing rice wine or dry sherry; 1 tablespoon light soy sauce; 3 tablespoons fresh chives, finely chopped; 3 spring onions, finely chopped; 2 teaspoons ginger, finely chopped; 1 tablespoon groundnut (pea-

nut) oil; 2 teaspoons sesame oil.

Rub the salmon fillets evenly with salt and pepper, pour on the rice wine and cover tightly with plastic wrap.

Prepare the rest of the ingredients. Cook the salmon in the microwave oven at 100 per cent for 3-5 minutes, depending on its thickness. The salmon is done when it feels firm and not spongy. Remove and let sit for three minutes.

In the wok, combine the two oils and heat. While the oil is heating, sprinkle the salmon with the soy sauce, chives, spring onions and ginger. When the oils begin to smoke, pour this over the top, it should sizzle and be served at once.

Ken Hom's Chinese Kitchen is published by Pavilion Books (£17.99 in paperback, 200 pages). His restaurant, Imperial City, is located in The Royal Exchange, Cornhill.

bring them to Le Gavroche (his restaurant) at 3pm, then go shopping, take a bath, make yourself even more beautiful and return to Le Gavroche at 7.30pm, with your husband in tow, in time for pre-dinner drinks."

These questions and answers have now been compiled in a book, *Cher Albert* (Pavilion, £9.99, 128 pages) and provide a very jolly read. Jill James

Nevertheless, the Roux solutions to these *cris de coeur* are often charming and funny: "Dear Albert, I was as surprised as my husband was pleased when he came back from the pub with two pheasants and an unskinned hare. These dead animals are now cluttering up my kitchen. What do I do?"

Roux's answer: "My love,

Cookery/Philippa Davenport

## Fragrant and sweet

The second part of a rice treat

Last week, I talked about different types of rice with Margaret Shaida, an Oxfordshire-born journalist and historian who married an Iranian and lived in her husband's homeland for 25 years.

Here is the second rice dish that Shaida cooked for me, said to have originated at court in Isfahan. Variations given in Shaida's book, *The Legendary Cuisine of Persia*, due to be published by Penguin (£12) on November 3, include lamb with dried apricots, and duck with barberries or sour cherries.

## BAKED SAFFRON RICE WITH CHICKEN AND SPINACH

A 4pt round ovenproof bowl is needed for cooking this dish. A Pyrex mixing bowl is ideal as it enables you to check that the crust is turning golden all over as it should. Iranians will wince at the unorthodoxy but two of the people who sampled this dish when I made it liked it best with a gravy spoonful or two of rich chicken broth poured over the white rice at table.

1lb dom shah or good quality basmati rice; 12oz chicken breast fillets (skinned and boned weight); 1½lb fresh spinach; 1 fat garlic clove crushed with a little salt; 7 fl oz plain yoghurt; 2 small eggs; a good pinch of saffron, pounded and soaked in scant 2 tablespoons boiling water; 3 fl oz sunflower or other light tasting vegetable oil; 3oz butter.

Cook the chicken a day ahead using the following method: Wrap each fillet separately in a double layer of food film, twisting the ends like a cracker and tying them with string. Drop the parcels into a pan of boiling water and cook at a bare simmer for 10 minutes. Lift the parcels out of the pan and leave for five minutes before unwrapping. Drain off the juices, cut the meat into large chunks and season with salt and pepper.

Beat the eggs with the yoghurt. Add the crushed garlic and cool saffron liquid. Stir in the chicken. Cover and refrigerate overnight.

Next day, wash the rice under a cold running tap for several minutes. Then leave it to soak for three hours in 4pts cold water with three tablespoons salt.

Wash the spinach, strip off any tough stalks and cook the leaves until tender in the water that clings to it. Squeeze well to drain off as much liquid as possible, season lightly with salt and plenty of pepper and set aside to cool.

Bring 4pt water and three tablespoons salt to a rolling boil. Add the drained rice, bring back to the boil, cover and cook for no longer than two minutes before testing the grain. It should be soft on the outside and still firm (but not brittle) in the centre. It may need half a minute or so more to reach this stage but probably not much longer. Remember the grain will continue to soften as it steams.

Drain the parboiled rice, preferably in a rice colander to avoid compressing it, and rinse

it in cold water. Now for the messy bit. Measure the oil into the 4pt ovenproof bowl and swirl to coat the interior all over. Lift the chicken out of the yoghurt mixture and reserve it. Gradually add one-third to at most a half of the parboiled and drained rice to the yoghurt, mixing it in gently but thoroughly with one hand.

Tip this creamy-textured, pale yellow mixture into the oiled bowl. The aim now is to line the sides of the bowl entirely with yellow rice, and to pile the dry white rice into the centre. Do it gradually. First work the yellow rice just a little way up the sides of the bowl with one hand, then sprinkle some dry white rice into the centre with the other hand. Repeat. With a little encouragement, as the white



rice is added the yellow rice will rise up the sides of the bowl. When the bowl is about half full put the chicken in a layer over the rice taking care to keep it within a perimeter of yellow rice. Spread the spinach over the meat, again leaving a ribbon of yellow rice round the edge. Then continue drawing the yellow rice up round the sides of the bowl and fill the centre with the rest of the white rice. This gets easier with practice.

Level the top. Cover closely with well-oiled kitchen foil and bake on a baking tray at 400°F, 200°C, gas mark 6 for two hours, turning the bowl as necessary for an even tan.

When the rice is cooked remove the bowl from the oven. Lift the foil briefly, dot the rice with flakes of butter and replace the foil. The chilled fat will arrest cooking and, as it melts and seeps into the rice and down the sides of the bowl, it will loosen the mound making it easier to turn out.

After five to 10 minutes run a palette knife or other long flexible blade between the rice and the edge of the bowl. Cover the bowl with a large warmed plate (a completely flat fan plate is best), invert and the bowl should lift off cleanly.

The beautiful layering will be revealed when the rice mound is cut like a cake for serving. First the crunchy outer shell of golden crust, then the lining of cakey textured pale saffron rice with yoghurt, and finally a central core of fragrant, free-running pure white grains. All this with layers of tender chicken and sweet green spinach running across it.

■ A good selection of Iranian produce is available from Super Bahar, 349A Kensington High Street, London W8.

Appetisers

## End the mobile menace

phones loudly and over-zealously in public places.

Nicholas Lander  
■ P.J.'s Bar and Grill (52 Fulham Road, London, SW3, tel: 071-581 0025) is a lively nightspot which took over the site of one of the duller pubs on the Fulham Road. It serves decent food and wines with the accent placed on the new world.

P.J.'s latest venture has been to sell a range of cask-strength malt whiskies by the glass. There are seven in all, of which the least impressive are

two vintages of Knockdhu, a Speyside malt which has gone over to bottling only recently.

The other five, however, were very fine: a 1984 Bladnoch with all the delicacy and elegance of a Lowland malt; a 1978 Benrinnes with an aroma of coffee and hazelnuts; a fine 1973 Glenrothes which put me in mind of sponge cake; and a 1978 Ardbeg which was all you would expect from this great Islay – all iodine and new leather.

The best of the lot was a 1965

Springbank from Campbeltown: the nose seemed one-dimensional and too strongly marked by a sherry butt, but the palate was wonderfully complex.

Giles MacDonald  
■ I love that mix of directness and scarcely-concealed irritation that French chef Albert Roux manages to convey in the London newspaper, the *Evening Standard*, in his column answering readers' queries about food.

It is the naïf questions that make the column such a good

read: "Dear Albert – How can I make the definitive cooked English breakfast?"

Who, in England, needs to ask any Frenchman that? Nevertheless, the Roux solutions to these *cris de coeur* are often charming and funny: "Dear Albert, I was as surprised as my husband was pleased when he came back from the pub with two pheasants and an unskinned hare. These dead animals are now cluttering up my kitchen. What do I do?"

Roux's answer: "My love,

bring them to Le Gavroche (his restaurant) at 3pm, then go shopping, take a bath, make yourself even more beautiful and return to Le Gavroche at 7.30pm, with your husband in tow, in time for pre-dinner drinks."

These questions and answers have now been compiled in a book, *Cher Albert* (Pavilion, £9.99, 128 pages) and provide a very jolly read. Jill James

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## BOOKS

# Dangerous liaisons

Michael Thompson-Noel enjoys other people's affairs

Cecil Parkinson, the Tory politician, will blush – or swell – to hear it, but his fame as an adulterer looks likely to last, judged by his inclusion in Stephen Brook's witty and life-enhancing anthology of infidelities throughout the ages.

The scope is broad. As the dust-jacket says: "The reader will find scenes of tenderness and of sorrow, of bitterness and of rage, of ecstasy and of farce... The depravities of ancient Rome are compounded by the exuberant

THE PENGUIN BOOK OF INFIDELITIES  
edited by Stephen Brook

Viking £17.376 pages

lust of the Earl of Rochester's poems... We learn of the exploits of such famous adulterers as James Boswell, Lord Byron and Cecil Parkinson.

Parkinson? You would have thought that interest in his home life adultery with his home secretary, Sara Keays, which caused him to resign from the Thatcher government, had faded by now, given the tide of misbehaviour, in circles high and low, that has swamped us in the meantime. Yet here he is, accorded a spot in an all-time hit parade of bounders, seducers and other sorts of heartbreakers.

Infidelity, says Brook, is dangerous, for it confounds the stable order. But it is also exhilarating, at least to those concerned. And it is certainly commonplace. A study of American marriage published seven years ago reckoned that half of all Americans have been adulterous at some time. Another study put the figure at 70 per cent.

With some exceptions, most societies take a dim view of adultery, though in most places female lapses tend to be punished more severely than male.

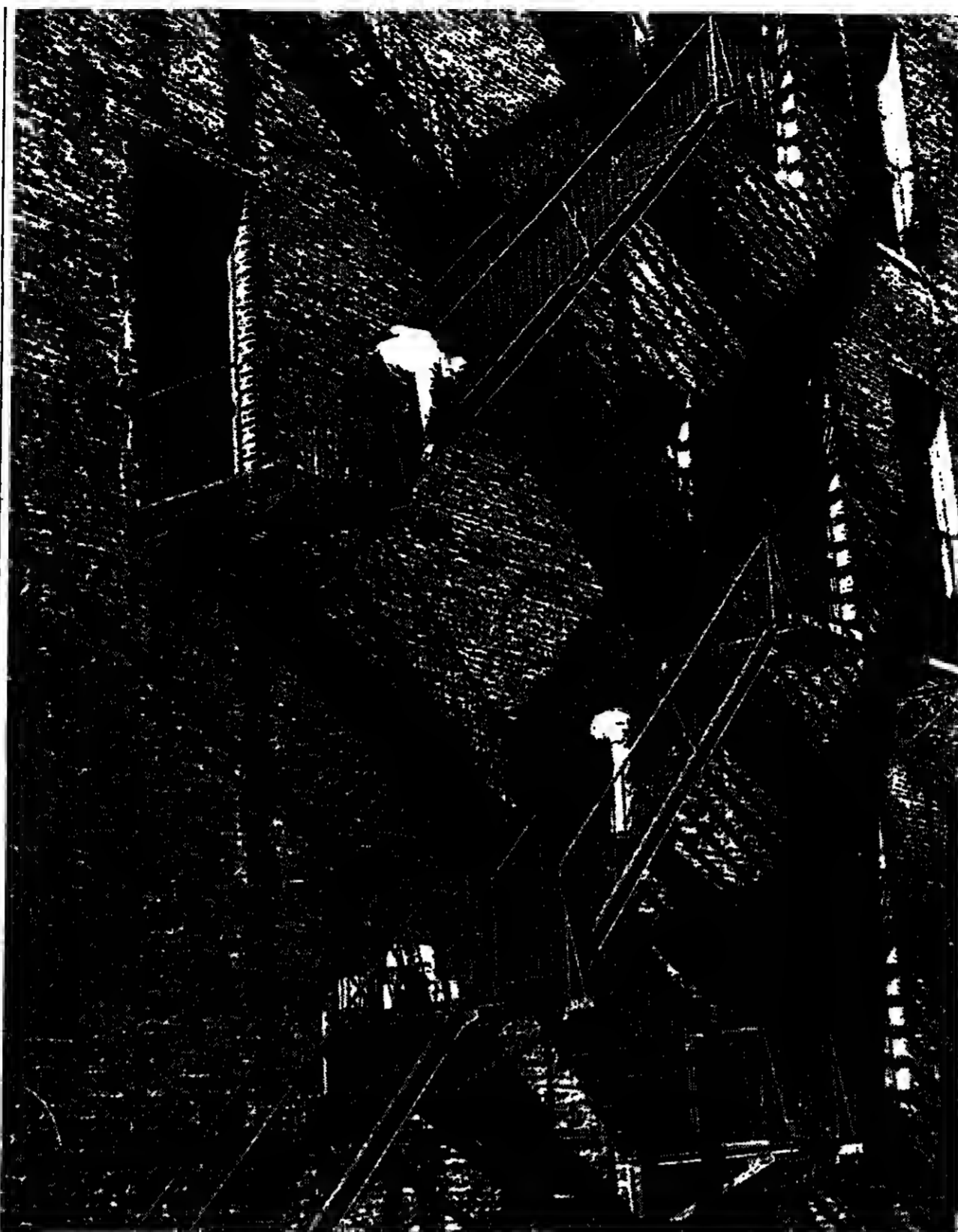
Almost all the writers you would hope to see represented in this anthology are represented, from Amis (both) to Boccaccio, Wilde and Wharton, Strindberg and Suetonius. But connoisseurs will notice several obvious omissions. The reason, says Brook, is simply quality of writing. For example, both Henry Miller and Anaïs Nin are absent because he cannot bear their prose styles. On the other hand, "classic texts" of infidelity, including *Troilus and Cressida*, *Anna Karenina*, *Madame Bovary* and the novels of Colette, are represented by substantial extracts.

There are plenty of jokes: "You know, of course, that the Tasmanians, who never committed adultery, are now extinct" – Somerset Maugham.

And plenty of surprises. I was especially captivated by the notorious Miss Chudleigh, who fascinated the Earl of Bath, nearly married the Duke of Hamilton, went to a ball in a gauze dress and caught the eye of George II, secretly wed the future Earl of Bristol, conquered Frederick II, bigamously married the Duke of Kingston, inherited his fortune, retired to Russia and finished up in France, where she purchased a royal palace for £50,000.

She died in 1788, aged 68, after other love affairs. She was painted in her gauze dress, wearing a ravishing smile. The dress was a single garment, quite transparent, and probably explained her career.

In company like that, Cecil Parkinson and his secretary come across as very dismal potatoes.



New York, 1948: photographer André Kertész, a former stockbroker, eschewed technical trickery and insisted he was an "amateur" throughout his long career. Pierre Boncompagni's study of Kertész's life and work (*Little, Brown and Company* £46.367 pages) illustrates his approach – which inspired Carver Bresson – in which the camera is an impartial recorder and the photograph "gets its beauty from the very truth with which it is stamped."

# Lifting the lid on Sylvia Plath

With this morally challenging book, post-modern biography has come of age says Jackie Wullschlager

The *Silent Woman* is about one of the loudest literary voices this century. In the icy winter of 1962 Sylvia Plath wrote her pitiless, death-obsessed Ariel poems, stuck her head in a gas oven and killed herself. Her words have reverberated ever since – "dying – is an art", "every woman adores a fascist" – and yet because they are so powerfully emotive, they have also been distorted, misinterpreted, muffled.

This book tells two tales: how Plath gained the courage to speak with this electrifying voice in the first place, the story of her life, and what her desire to interpret that voice reveals about our own culture – the story of her afterlife. It is a brilliant mix and a landmark in the history of biography.

Plath was a clean, golden-haired American girl with dark lipstick who came to England in the 1950s and married the poet Ted Hughes. She looked like an advertisement for soap powder, but beneath the gloss was a tormented, tempestuous woman who was rarely nice to know.

She broke up a family Christmas, stole food from other people's refriger-

ators, fantasised about killing some schoolgirls who took flowers from a park. Her relationship with her mother was sick, and she devoured men for breakfast, writing afterwards of the "orange-juice-and-hroiled-chicken" and "plain steak and potatoes with nothing due to them taste" of the dull ones. Hughes by contrast was a giant who filled "that huge sad hole I felt in having no father." On their first meeting she bit him until he bled; months after he left her, she died.

It was Malcolm, who calls "her courage to be unpleasant", that made her a feminist heroine. "I see you have a concentration camp in your mind, too," Plath once told the poet George MacBeth. Hughes has described how she fought to find her authentic voice – beautiful, severe, glacial. Malcolm sees this as part of a key historical moment in which the "uneasy, shift-eyed" 1950s generation finally threw off 19th century repression and embraced the brave new world of feminism, Vietnam, protests and the civil rights movement.

Plath was the voice for the times; no post-war poet has expressed more

eloquently the anxieties – women's struggles, political tyranny and repression, psychological breakdown – of our century. But Plath's life was also emblematic, for she was the first great woman writer in creativity and domesticity who waged war. Jane Austen, Emily Brontë, George Eliot, Virginia Woolf, none attempted every-

THE SILENT WOMAN:  
SYLVIA PLATH AND TED  
HUGHES

by Janet Malcolm  
Fiction £14.99, 215 pages

day family life. Plath, by contrast, fumed at being "a prisoner in this house, chained to the children," while Hughes swanned off. She wrote the Ariel poem in a blaze of domestic misery and marital break-up.

In the private lives obsession of the 1980s and '90s, this is the part of Plath's story which, fuelled by Hughes' reticence and his control over the Plath estate, has become the stuff of legend. Malcolm is inspired on the transgressive nature of biography – the only explanation she says, for the

genre's popular appeal – and wittingly invites the reader to tiptoe with her "down the corridor together to stand in front of the bedroom door and try to peer through the keyhole."

Her genius however, is to turn the tables and to rough up Plath's biographers and critics as they have roughed up Plath – reading their mail, quizzing their friends and gossiping about their houses. Thus she draws us, deeply and uneasily, into what really happens in the making of the modern biography.

Malcolm is not someone to invite home lightly. Take her visit to Ann Stevenson, whose 1987 *Life of Plath* was vituperatively reviewed for pandering to Hughes and for its omissions. Around the kitchen table, Stevenson reveals her problems in working with Hughes, her dissatisfaction with her book – she eventually published in part because she could not afford to repay the advance.

Malcolm puns sympathetically, then turns the knife with a story of Stevenson cooking lasagne, omitting the white sauce, serving up the dish reluctantly because there is nothing else.

Domesticity as metaphor, life as art: Malcolm has the novelist's ability to convey the essence through an exquisite piece of hithithness. A critic who sometimes misjudges Sylvia lives in a crooked Hampshire house and serves coffee out of rigid square cups. The handsome flat of the handsome structuralist academic with the crisp voice and the crisp handsome ideas... the trains and plumbing that do not work in the cold winter of 1991, when Malcolm came to England from New York to research the book and which recalled the icy months in 1963 when Plath was an American alone in a primitive pen.

With *The Silent Woman*, post-modern biography has come of age. Ventures of this kind usually fail because post-modern theories – that there is no truth, that no one owns another's life – are never as compelling as a well told story. Malcolm overcomes this with a dazzling method of rendering the best of traditional biography, choice snippets which sum up a life, the making of an artist, cultural history – without the longwinded. It is intellectually explosive, morally challenging and enormous fun.

# The present imperfect

Professor Eric Hobsbawm is usually described as a Marxist historian. This can mean many things, from a slavish belief in the great man's prophetic power to appreciation of the importance of economic factors in history. This book is an epilogue to a trilogy on European history – the *Ages of Revolution, Capitalism and Empire* – which has been widely praised. In these volumes and his latest work the author is by no means a doctrinaire disciple of Marx, let alone of the USSR, which purported to be the embodiment of Marx's beliefs and the standard-bearer of his cause.

Hobsbawm divides his book into three parts: "The Age of Catastrophe" – 1914-50; "The Golden Age" – 1950-75; "The Landslide" – 1975 onwards. The first covers what he calls "The Thirty One Years War"; the second the immense – and to him unexpected – capitalist post-war boom which has transformed the world; and the third, a period that he sees as one of a slide into instability, crisis and general loss of bearings. He prefaces his opening section with a quotation from Isaiah Berlin: "I have lived through most of the 20th century without, I must add, suffering personal hardship. I remember it only as the most terrible century in Western history". Few will wish to dispute this judgment.

The causes of the 1914-18 war have been the subject of great controversy. Why could the conflict not have been settled by diplomacy as a Bismarck or a Talleyrand would certainly have attempted? Hobsbawm explains its all-or-nothing nature by the fact that, unlike previous wars waged for limited objectives, this was waged for unlimited ends. That was true, and even truer of the second world war, but the question why still remains. In the case of the 1939-45 war Hobsbawm has no doubt. It was essentially Hitler's war for world power. Nor, despite the smoke screen put up by post-1918 German historians, can one seriously defend the rulers of Germany in 1914 from the same charge, though the author does not say so.

What he rightly emphasises is that the second world war, unlike the first, was ideological as well as nationalistic, and that there were three ideologies – fascism, liberal democracy and communism – which were equally antipathetic to each other. It was a paradox of the principle that "my enemy's enemy is my friend", which produced the alliance of opposites from 1941 onwards.

Without the USSR the Western allies could not have won, and its success in waging war gave a spurious plausibility to its "command economy" in peace. Stalin's forced industrialisation during the 1920s and 1930s was already such an

economy, and it had at least avoided the traumatic experience of the Great Slump.

Even as late as 1950 Harold Macmillan thought that the USSR might soon outstrip the economic successes of the west. In fact it was already collapsing under its own contradictions. Hobsbawm, however sympathetic he may once have been with Marxism, is a realist and his analysis of the collapse is shrewd and perceptive.

What would most surprise earlier Marxists is the recrudescence of capitalism after 1945. But their hero was a poor prophet. He foresaw neither fascism nor the welfare state and his confidence in the proletarian triumph has turned out, like most theories of inevitability, to be wrong.

Whatever the reason – and one can agree that there is no simple explanation – capitalism in the "Golden Age" flourished as never before and brought about vast changes in the way of life and the standard of living all over the world. Its success has killed socialism. Marxist socialism was a religion. But a religion of materialism has a weakness which spiritual religions do not possess. No one can prove by

AGE OF EXTREMES:  
THE SHORT  
TWENTIETH CENTURY  
1914-1991

by Eric Hobsbawm  
Michael Joseph £20, 627 pages

experience that Christianity, Islam or Buddhism are wrong. A religion which purports to improve the material welfare of mankind is in a different category. If it does not deliver the goods sooner or later people will stop believing it.

From the mid 1970s the Golden Age gives way to the Landslide. The period certainly saw major changes – the end of socialism for one. The former USSR and its ex-satellites were indeed in a state of chaos and disarray – transitional perhaps but no one can be sure. The capitalist world has seen more recessions and higher unemployment than in the previous quarter century, but "landslide" seems an overstatement. The very fact that "Black Monday" in 1987 did not herald a repeat of 1929-31 suggests that there are stabilising factors present now which were not then. Nor is it convincing to talk of the weakening of the nation state, despite Marx's dislike of it. There are more of them then ever, and this most significant legacy of the French Revolution shows no sign of going away. Fifteen years is not a long period for historical perspective. Eric Hobsbawm has written a brilliant and stimulating book. But like most historians he is better on the past than the present.

Lord Blake

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A few years ago a Moslem friend exploded on reading V.S. Naipaul's *Amongst the Believers*: how could Naipaul dismiss Islam in this way? In his depiction of a handful of Moslem countries, the unbeliever paraded his prejudices by profiling only intransigent imams and authoritarian ayatollahs, and by caricaturing spiritual codes. I had little sympathy at the time. Religions, after all, have borne the scrutiny of inveterate infidels for millennia. But after reading a similar undertaking, a peregrination through Catholic Europe by the Irish novelist Colum Toibin, I find myself echoing my friend: the sacred may be politicised, but it should not be profaned.

Disenchanted with the religion of his childhood, Toibin seems bent not so much on a journey of discovery, but on a quest to diminish the divine, to view Catholicism as mere "consolation" akin to "listening to

# At the heart of Catholicism

The sacred may be politicised, but not profaned says Cristina Odone

THE SIGN OF THE CROSS: TRAVELS IN CATHOLIC EUROPE  
by Colum Toibin  
Jonathan Cape £16.99, 296 pages

JOHN PAUL II  
by Michael Walsh  
HarperCollins £20, 320 pages

music after a long day's work; it was pure theatre". Politicisation of the church is inherent in its teaching – the gospel, after all, was interpreted by Christ's contemporaries as a revolutionary message, for which he was duly crucified. But the centuries have wrought a political permutation to the Church of Rome – its accumulation of capital and power has placed it squarely at the heart of the Establishment, and its emphasis on the authority of the Magisterium (the church's teaching) has lost it many allies in an age when authority has become synonymous with authoritarianism.

It is this view of the church that fuels Toibin's journey. He marshals events, characters and rituals in order to vindicate a pre-determined ideological position: Catholicism prepares the ground for the seeds of authoritarian regimes. By imparting its message of obedience to spiritual authority, the church serves as a factory that mass produces disciples for the latest despot.

The theory has been around for some time, but fails to



Karol Wojtyla, Polish pontiff

account for a number of historical incidents and political strains. Although Toibin allows that the "first open demonstration in Slovakia against the regime was organised through the Catholic Church" in 1988, and he does recognise the Jesuits' anti-Mafia campaign in southern Italy, he chooses to belittle a number of other instances when European Catholicism allied itself to the right cause, not the Right camp, and helped pave the way for democracy, not dictatorship.

Toibin seeks to limit Catholicism to an aesthetic canon – he offers us vivid, lyrical impressions of Spanish religious processions, of Polish churches and Slav pilgrimage

sites – and to a socio-cultural influence that shapes and colours temporal occupations and aspirations. Certainly, in a number of the countries he visits (particularly Poland, Italy, Ireland and Spain) the Church does permeate national identity by influencing everything from divorce laws to the sanctification of the fatherland.

But the ultimate legacy of the Catholic Church is a spir-

itual one. It is in its message of hope, and of the importance of even the most marginalised members of society, that Catholicism has proved such a powerful influence on this generation of Europeans. To underestimate this legacy is to misunderstand an important part of 20th century history – and to underestimate, too, the role played by the remarkable man who has led the church through the past 16 years, John Paul II.

In his biography of Karol Wojtyla, the first non-Italian pope since the 16th century, Michael Walsh lays down his cards at the outset: he had reservations about the cardinal from Cracow when he was elected to the See of St Peter, and "as the years have gone by I have seen no reason to change my original judgment".

Walsh, a former Jesuit, is a liberal Catholic who sees the church as guardian of the gospel message in its social context – love, solidarity and helping the poor and dispossessed. He does not, however, long for the certainty of spiritual absolutes which Karol Wojtyla delivers. Where some more tra-

ditional Catholics applaud the present pope for dusting off the sacred system of correspondence between heaven and earth, Walsh sees this shepherd as bent on keeping his flock in an uncomfortably tight pen.

Walsh carefully charts the papacy, analysing both failures (in particular the financial scandal of the Banco Ambrosiano) and successes (the behind-the-scenes work in helping Lech Walesa set up Solidarnosc and then toppling the Communist regime, the campaigns against right-wing dictators from Chile's Pinochet to Haiti's Baby Doc). And he analyses, too, the writings of the prolific pontiff – from his first encyclical, *Redemptor Hominis* to what must surely be regarded as his spiritual testament, the hard-hitting 1993 encyclical, *Veritatis Splendor*, with its fulminations against subjective morality and the *à la carte* Catholicism favoured by the majority of Catholics in the west.

Though Walsh finds it difficult to feel sympathy with the theological hard line towed by the Polish pontiff, even he cannot detract from the undoubted achievement of a pope who dragged the Catholic Church from the sidelines to the centre of the world political arena.

■ Cristina Odone is editor of the *Catholic Herald*

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## BOOKS

# Woman at odds with her nature

Out of conflict, Doris Lessing has produced literature of the highest rank, writes Justin Cartwright

This volume covers the years 1919 until 1949, the formative years. It is a fascinating account of how Doris Lessing first wrestled with and then escaped colonial life on the family farm and in Salisbury. Her very earliest memories are of questioning virtually every aspect of received wisdom.

She was that phenomenon, like Katherine Mansfield and Olive Schreiner, and perhaps Germaine Greer, a woman who throws on her clear-cut duty to defy provincial society.

There is a rather moving passage in her recent and rambling *African Laughter* where Lessing meets her brother at his farm and discovers that his memory of old times is very different from hers. He is still puzzled, without wishing to give offense, by the course of her life.

No doubt this incident will appear in Vol. II, but it seems to be the central question of this volume. While on one level appearing to be

the bright, cheerful, "Tigger" Taylor, the daughter of an invalid, failing farmer and a hyperactive former matron at the Royal Free hospital, how and why did she harbour both loathing for her mother and a belief in her destiny, which was some thousands of miles away from Salisbury?

The detestation of her mother is on a par with John Osborne's, yet her mother seems to be a more or less standard colonial, with all the prejudices and many of the virtues. Her father, with his detestation of the military (understandable as he lost a leg in the first world war), is more complex, and never fully understood or explained.

In the realm of human relations,

Doris Lessing appears to have been singularly inept. Her lack of understanding is perhaps a result of her early solitude and extensive reading. As she demonstrated in *African Laughter*, the beliefs of her youth lie in ruins around her. Communism, which she renounced in 1954, proved an illusion; belief in a post-war renaissance of rationalism was shattered; the hope of a post-colonial flowering of Africa has proved equally illusory.

But the habits of mind have not entirely died. Although she has satirised the colonial left, she says that her own sense of guilt about abandoning communism persisted into the 1990s.

But the reader will be most

intrigued to understand how, after her first marriage, she was able to abandon young children and live in another part of Salisbury, marry a communist she did not love and have a third child. She seems unable to explain this most human of dilemmas, beyond the feeling that she had to escape from her upbringing to follow the demands of her destiny. Her destiny demanded that she should never be trapped. It

also demanded respect for dreams. Bouncy, chubby, Tigger Taylor has never forgiven those who underestimated her.

Out of this tension she has built a wonderful career as a writer. There are in this volume many insights into the material and the inspiration for her work. There is also a sort of cloudy impression about her thoughts, particularly on the psychological and political levels, which make this at times a very unsatisfactory biography.

Strange, though, that these musings are invariably illuminated by some shafts of understanding, as when she says: "We should be careful of the company we keep and the language we use. Regimes, whole

countries, have been taken over by language spreading like a virus from minds whose substance is hatred and envy. When torturers teach apprentices their trade, they learn from an ugly lexicon." She should know: in her early days in Southern Rhodesia, she was completely besotted by the language of communism: she even doubts she would have resisted if she had been sent out to kill the kulaks.

What you have, then, is the biography of a very complex woman, a woman at odds with her own nature, her own family, and the society in which she was born. In the most fundamental way, in her determination to forge her own life, she is the archetype of contempo-

rary woman; but she is not a feminist, if that means believing women are victims of men's exploitation. Sometimes in her retelling of her loves and political preoccupations she suggests a loneliness which none of the defiant protestations of "I will not" can disguise.

As I read on, I desperately wanted to know if she missed her children and what had become of her daughter, Jean, by her first marriage. Her son John, we learn casually, has died of a heart attack, "not unexpectedly" in view of the Rhodesian life style. Yet it is the miracle of art that out of the turbulence and conflict - and probably heartbreak of these years she produced literature of close to the highest rank.

As the volume ends, she is waiting in a boarding house in Cape Town with her new son Peter for a ship to England. She knows that there will be a good outcome as she watches and waits. Her manuscript of *The Grass is Singing* has preceded her.

## From cosy reassurance to urban terror

Anthony Browne on children's books

Warm reassurance permeates many young children's picture books this autumn. The best of these sanguine stories is *So Much*, written by Trish Cooke and illustrated by Helen Oxenbury (Walker Books £3.99). The unpretentious, poetic text tells the story of a mother and baby who await the start of father's birthday party. Various lively members of the family arrive and they all want to squeeze the baby, kiss him and fight with him because they love him "so much".

Cooke's text is an inspiration to Oxenbury, who uses three different styles throughout the book. Instead of her usual pencil and wash, there are soft black and white drawings of the baby, almost monochrome studies of stationary groups, and large, expressive gouache paintings of vigorous colour and movement. It is always a delight to see an established artist taking risks, breaking new ground, and succeeding brilliantly.

Another book dealing with a similar theme is *Guess How Much I Love You*, written by Sam McBratney and illustrated by Anita Jeram (Walker Books £3.50). Little Nut Brown Hare and Big Nut Brown Hare compete to see who loves each other most. "I love you as high as I can hop," laughed Little Nut Brown Hare, bouncing up and down. "But I love you as high as I can hop," smiled Big Nut Brown Hare - and he hopped so high that his ears touched the branches above. I find the story too knowingly cute. But it is charmingly illustrated in a nostalgic English style and printed on beautiful cream paper. It should do well in the US.

Collin McNaughton seems to have updated Pat Hutchins' *Rosie's Walk* in his hilarious new book *Suddenly* (Andersen Press £3.99). Here a pig cheerfully walks home, totally unaware that a Big Bad Wolf is stalking him. Just when it seems that the pig must be caught he changes direction and the wolf is thwarted, again and again. There is a funny reassuring ending when the pig finally gets home to see a wolf-like shape at the

sink who turns out to be his mother. The story flows through the pictures like a silent Buster Keaton film, but as always with Collin McNaughton the words are never superfluous - he cleverly avoids mentioning the wolf at all. Children will love this book.

The Bear by Raymond Briggs (Julia McRae £3.99), is a huge book with familiar echoes. The story opens as a girl is tucked into bed with her teddy bear. As she drifts into sleep we see through the window a small grey shape looming towards her. In Briggs's characteristic soft crayon picture-strip the shape gets nearer and nearer until we see a large paw opening her window. On turning the page we are confronted, like the girl, with the massive head of a polar bear. The bear comes in and, as she persuades it to get into her bed, the teddy bear is kicked out.

The book hovers between reality and imagination; the bear is very real and wonderfully drawn, and the girl has to clear up its mess, but the silvery, ghostly shimmer of the creature gives a dream-like feeling to the story. We have seen many books where a large furry animal comes into a child's bedroom. And there are similarities to *The Snowman* and *The Man*, but the superb drawings of the bear and the cinematic use of light and scale transform well-worn material into a delightful and satisfying picture book.

There is no cosy reassurance in *Way Home* written by Libby Hathorn and illustrated by Gregory Rogers (Andersen Press £3.99). From the crumpled paper endpapers and the stark ripped black and white title-page we know we are in very different territory. This is the dangerous inner city at night and we travel with Shane as he takes home a stray kitten, running terrified from a gang, leaping through screaming traffic, escaping a fierce dog and finally arriving "home" - a street shelter made from rubble. The stunning artwork and brilliant design of this dark book make it an exciting read for older children. I have the feeling, though, that not many will get the chance to see it.



'How many miles to Babyton?': Paula Rego turns her attention to 'Nursery Rhymes' (Thames & Hudson £12.95, 71 pages)

## False prophets confounded

Intellectual history is full of attempts to reduce the complexities of human behaviour to a single set of motives and characteristics. The latest academic fundamentalists are those scientists who seek to debunk philosophy's most profound dilemmas by claiming that our increased biological knowledge of the human mind will provide the answers.

Mary Midgley, one of Britain's most engaged moral philosophers, will not hear of such arguments. In this dense, but clearly-written counter-attack, she stands up for the inherent knots and ambiguities which afflict so much of our ethical discussion and seeks to find a more sophisticated framework for future debate.

Her problem is, to philosophers at least, a familiar one: how to evade crude, mechanistic accounts of human motivation without collapsing into a kind of despairing relativism which has become a mocking key-note of today's post-modern intellectual culture.

She begins her thesis by attacking some of the embedded positions which have led us to this unseemly impasse: the false dualisms created by philosophers between mind and matter, and between reason and feeling; the "machine type" which champions those views of the human world which most closely correspond to the physical world (she shrewdly includes both Marxism and free market capitalism); and the over-simplistic notions of social Darwinism which have also been plundered to serve economic ends.

All these positions, she explains, fail to take account of our "slight and misty nature"; they ignore the striking contradiction that we are frequently divided but constantly seek to act as a unity, a predicament she describes as "a constantly ongoing project, a difficult, essentially incomplete integration which can occupy our whole lives."

Midgley is surely correct in identifying the modern attitude to religion as part of the problem: she claims that secu-

lar philosophy has always found the idea of "deep, difficult inner conflict" unpalatable, as it was closely linked with religious thinking.

"Enlightenment intellectuals, associating religion with folly, obscurantism, asceticism and political oppression, deeply distrusted the very idea of irremovable inner conflict. They also needed a fairly optimistic view about human motivation in order to make the various revolutions they were proposing look possible," she says.

That we are still slaves to the Enlightenment project, despite the violent denunciations of a Nietzsche or a Sartre,

THE ETHICAL PRIMATE: HUMANS, FREEDOM AND MORALITY

by Mary Midgley

Routledge £17.99, 193 pages

is central to Midgley's argument. But the problems of the 20th century are not those of the 18th century; the zeal of the atheist, such a dynamic intellectual force in a social context of religious conformity, today is matched against a much-embellished enemy, and has, in Midgley's view, over-stretched itself.

She seeks a way forward by turning to Darwin's own work on morality, and to the significance of the "quicker motives" those persistent undertones of social awareness which we all possess, and which frequently over-ride our urgent desire to be passionate, greedy, angry or resentful at any one moment.

She also focuses on the binding power of "sympathy", a value which has been unjustly neglected due to its refusal to fall neatly into either side of the thought/feeling divide, but which characterises so many human responses.

This is common-sense philosophy of the highest order; one can only hope that more professional philosophers embrace the campaign against the slick certainties and theoretical gibberish of today's false prophets.

Peter Aspdon

## The serial killer as a symbol of success

The cult of the anti-hero has come a long way since Chaucer's 'smyler with the knyfe', says Joan Smith

What do the following authors have in common: Paul Theroux, William Trevor, Brett Easton Ellis, Michael Dibdin, Peter Ackroyd, P.D. James, Thomas Harris, Patricia D. Cornwell? The answer is that each of them has written one or more novels featuring a serial killer.

It is a crowded but potentially lucrative field. Since the huge success of *The Silence of the Lambs*, publishers and studio executives are on the lookout for the next Thomas Harris. The American author Patricia Cornwell, who has made serial killers her speciality, has set up her own film company and is looking for an actress to play her pathologist heroine Dr Kay Scarpetta.

Cornwell's novel *Cruel and Unusual* won last year's Gold Dagger, the top award for crime fiction in Britain. Her first novel, *Post-Mortem*, won just about every crime writing award in Britain and the US. Another Gold Dagger winner,

the English author Michael Dibdin, is writing a serial killer novel, *Dark Spectre*, which is due to be published in Britain next spring.

The American writer Brett Easton Ellis received a critical drubbing in 1991 for *American Psycho*, in which a disaffected Wall Street whizz-kid fantasised about a gruesome series of murders in New York. Unabashed, Ellis's new novel, *The Informers*, rises to a crescendo of violence with a series of vampiric killings in Los Angeles.

The American feminist historian Jane Caputi has called the 20th century "the age of sex crime". It might seem that these authors are reflecting a natural preoccupation with a brutal crime which was virtu-

ally unknown until the closing decades of the Victorian era. Brett Easton Ellis would argue, I suspect, that the crimes committed or contemplated by his characters symbolise the moral bankruptcy of contemporary American society.

Patricia Cornwell identifies herself and her character, Dr Scarpetta, with the forces of law and order, characterising serial killers as "black holes who (have) sucked light from the planet Earth". Her new novel, *The Body Farm*, is dedicated to the right-wing US senator Orrin Hatch "for his tireless fight against crime".

The body farm is a real place, a research institute where corpses are exposed to immersion in water or extreme temperatures to establish rates of decay. Thomas Harris's novels are partly set at Quantico, the FBI academy in West Virginia which almost no-one had heard of before it appeared in *Red Dragon* and *The Silence of the Lambs*.

Harris's novels are scary, melodramatic, brilliantly written, and in at least one important respect deviate drastically from reality. His convicted

killer Hannibal Lecter has become a cult figure whose devious mind easily outdistances anyone who tangles with him. Anthony Hopkins played him in Jonathan Demme's film as a still, menacing presence who could see right into the soul of Clarence Starling, the rookie FBI agent played by Jodie Foster.

Hopkins as Lecter has nothing in common with the grim police mugs of real-life serial killers: Albert DeSalvo, John Wayne Gacy, Peter Sutcliffe, Colin Ireland, Sirhan Sirhan, Bobby Joe Long, Henry Lee Lucas. What tends to characterise serial killers is a haunting and intolerable sense of their own inadequacy - often, in the case of men who kill women, a fear of vulnerability which they project onto the female body.

Killing strangers is, for this group, a survival mechanism. If they were as glamorous and charismatic as Hannibal Lecter, they would not be serial killers. By contrast, the serial killer in contemporary fiction is an anti-hero for our times, incarnating powerful but seldom acknowledged communal fantasies. At the simplest level, he fulfils a longing for contemporary legends, for supernatural beings in an age in which magic and religion have been debunked by science.

Patricia Cornwell's most recent novels have featured a serial killer called Temple Brooks Gault. In *Cruel and Unusual*, Gault hacks into the



Anthony Hopkins as Lecter

FBI computer and switches his own fingerprints with those of a murderer who has just gone to the electric chair. A brilliant fictional device, it sets up Gault, like Lecter, as an epic anti-hero, a master of disguise who escapes detection in spite of the fact that "his face smiled from the Ten Most Wanted lists posted across the land".

Gault and Lecter are dramatic representations of stranger-danger, the idea of the unknown as simultaneously beguiling and threatening. This notion can be traced all the way back to "the smiler with the knif" in Chaucer's Knight's Tale; in the serial killer novel, the reader is allowed vicarious contact with this thrilling, terrifying

stranger in the knowledge that he or she will come out of it alive. In this sense the novels offer a frisson, cheap thrills, but there is more to them than that. Where violence is concerned, Cornwell's books outdo everything except perhaps *American Psycho*, offering graphic descriptions of crime scenes, wounds and dissections. They offer a challenge to readers, a how-much-more-can-you-take contest in which the answer, judging by Cornwell's huge sales, is anything she chooses to present to them.

It might be assumed that nothing could portray the harsh reality of death more vividly than these incarnadine novels, yet the cumulative effect is precisely the opposite. The reader becomes habituated to the whirring of cranial saws, to stomachs plopping onto dissection tables, to the tragedy that lies behind each cadaver. This is a species of narrative in which the corpse functions chiefly as clue, the plot, and the solution, are written on the body.

In a telling exchange in *Cruel and Unusual*, Dr Scarpetta's female assistant admits

her fear that there is no after-life. Scarpetta reassures her, explaining that she draws her wisdom on the subject from dealing with corpses: "Something's gone. You look at their faces and you can tell. Their energy has departed. The spirit didn't die. Just the body did."

This unfamiliar vagueness from a character who is usually as sharp as a scalpel is

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## ARTS/SPONSORSHIP

# Early works of a genius

William Packer on Michelangelo at the National Gallery

The National Gallery's admirable series of study exhibitions, *Making & Meaning*, focussing on particular works in terms of both the artist's intentions and techniques, continues with a look at the early career of Michelangelo. The period in question is the very end of the 15th century and Michelangelo's first extended working visit to Rome.

He arrived from Florence in 1496, aged 21 yet already free from his early apprenticeship in the studio of the brothers Ghirlandajo, Domenico and David. His five-year stay was to see not only the confirmation of his stylistic independence as a painter, but an astonishing burst of activity as a sculptor and a sequence of masterpieces – the Bruges "Madonna and Child", the Rome "Pietà", the "Taddei Tondo" from Florence and the "Pitti Tondo" from the Royal Academy, all represented here in casts of the highest quality – that established him at once as an artist of the first rank and the fullest maturity.

Sculpture took him back to Florence in 1501, to carve the monumental "David", and it was sculpture that had brought him to Rome in the first place. Having been advised to pass off a carved "Sleeping Cupid" as an antique, he learned that his Roman dealer had cheated him and so set out to claim it back. He failed, and the "Cupid" ended up in the hands of Isabella d'Este at Mantua, along with a genuine antique of the same subject. It has long since been lost, passing perhaps into the collections of Charles I and destroyed in the Whitehall fire of 1698. Who knows? Two such similarly exquisite "cupids" are in this exhibition, one a Roman fountain-head of the 2nd century, from the Uffizi, the other a 16th century pastiche from Corsham Court.

It is tempting but over-fanciful, no doubt, to take this last for the lost Michelangelo. What is certain is that questions of false attribution and disimulation hung about him even at the very outset of his career. Small wonder then that they do so still. The paintings, rarer than the sculpture, have always been the more problematical. Only three panels are known from Michelangelo's early career, of which the Uffizi's "Doni Tondo" of the Holy Family, tentatively dated about 1504, is the only one complete and undisputed.

The other two, both of them unfinished, are in the National Gallery's own collections. The earlier of them, from around 1497 and painted in egg tempera, is known as "the Manchester Madonna" and clearly carries with it, if



Simple, sculptural monumentality which could only be the work of Michelangelo: detail from the 'Manchester Madonna'

not the mark, at least the influence of Ghirlandajo. That is not to say that it is not entirely authentic to Michelangelo. The easy, graceful naturalism of the Virgin's gesture is alone enough to affirm the presence of a younger hand and a fresher eye, to say nothing of the simple, sculptural monumentality of the composition as a whole. The comparisons in detail with the sculpture are conclusive. That has not stopped certain scholars from proposing the existence of a corpus of work by a shadowy "Master of the Manchester Madonna". This theory is immediately scotched, however, by direct comparison with an example from Vienna of this putative master. There is no comparison.

But it is the mysterious "Entombment", dated about 1500 to fit it to a known commission for an altarpiece for Sant'Agostino and painted in oil, which is the greater puzzle. A drawing from the Louvre of a kneeling nude is sup-

posedly a study for the figure of Mary at the lower left of the composition. A lone scholar has suggested it is not by Michelangelo at all, and he has a point. For while this study is close enough in spirit, it displays an openness and almost awkward linearity in its working that is not quite up to the denser and more fluid modelling of Michelangelo.

But does a single dodgy drawing call into question the authenticity of the entire painting? Was a drawing by someone else never useful to an artist? Do inconsistencies in the handling and the drawing suggest anything more than that one artist accepted help from another? Does lack of documentary reference to a work, that was clearly full of formal problems and no less clearly left off abruptly, necessarily require its removal from the canon?

Such arguments do seem so often to be put forward in a spirit of all or

nothing, when the probable reality was something altogether more practical and mundane. Paintings take time, ideas shift and change, things go wrong.

My own view is that "the Entombment" is a magnificent failure in a time when the sculpture was going from spectacular to glorious success. It was not to be until the Sistine paintings of only a few years later that Michelangelo would be able finally to resolve, in terms of painting, the easy yet monumental naturalism that he had already achieved in such sculptural marvels as the "Pietà". The comparisons pass, between the paintings, the sculpture and the ceilings soon to come, effectively make the point.

*Making & Meaning – the Young Michelangelo: The National Gallery, Trafalgar Square WC2, until January 15. In association with Esso UK.*

# When artistic patronage proves a good investment

In the past year arts sponsorship has proved itself an industry with stamina. After two decades of steady growth, with business support for the arts expanding from around £1m a year to £64.4m in 1993-94, there was a slump, with the recession taking its toll and cutting expenditure by 13 per cent to £57.7m.

But in the last 12 months the industry has stabilised, at around the same sum. Indeed so many new sponsors are applying for the £1.8m a year available in government matching money under the Business Sponsorship Incentive Scheme, that the Association for Business Sponsorship of the Arts, which runs the BSIS, has been forced to cut the top-ups by around 40 per cent, to the consternation of many arts companies and their would-be sponsors.

Companies are now much more hard-headed about their sponsorship expenditures: they want to see results. There is little inclination to throw £100,000 at an event and hope for the best. This applies across all the main reasons for arts sponsorship – to support an event which offers entertainment for existing and prospective clients, influential contacts and opinion formers; to use the arts as part of a marketing and PR strategy, and to give something back to the community, viewing the arts as an element in the charity budget.

It is usually too expensive to evaluate the effects of arts sponsorship (although one new sponsor, Clerical & Medical, has done so to its own satisfaction) but there is much less money wasted these days. Take one of the biggest new sponsors of the year, Allied Domecq's £3.3m support, over three years, for the Royal Shakespeare Company.

The company's arm might originally have been twisted by the Prince of Wales, but the link gives it access to a prestigious national company that tours abroad – useful as Allied Domecq goes ever more international. It offers opportunities for entertaining both in London, at Stratford-on-Avon near its Midlands base, and throughout the country. It provides an educational project, which serves the company's charitable needs. It offers RSC privileges to its workforce, and it acts directly on its customers by adding promotions for

visiting the RSC to its brands. On November 6 the RSC will be performing a Shakespeare revue at the opening of the CBI Conference in Birmingham. This is good for the prestige of Allied Domecq and allows the RSC to play before an influential audience.

The two biggest sponsors in the UK, BT and Lloyds Bank, (with BT just ahead with a £1.5m a year spend) reveal two contrasting approaches. BT concentrates on the community. Its main commitments support drama and music at the amateur level. It also encourages young people to get involved in the arts and this year commissioned a new work by composer James Macmillan to be performed by 12 leading orchestras.

## Antony Thorncroft on the beneficial relationship between arts and sponsors

Lloyds Bank, with its support for music, film and fashion, concentrates on art forms appealing to the young, possibly potential customers. Ideally it looks for massive television coverage of its events, most notably the Young Musician of the Year competition, organised with the BBC.

While hospitality is still important (the £26m raised by Glyndebourne from companies towards the £33m cost of its new auditorium proves that) this is increasingly seen as part of the general corporate hospitality budget. Arts sponsorship is concentrated either specifically for marketing, or for goodwill.

Among the most effective marketing campaigns has been Beck's Beer, which concentrates on young people by supporting avant-garde visual arts events. Its latest has been backing the German conceptualist Rebecca Horn's shows at the Tate and the Serpentine. Once again a special production run was produced, with a work by the artist decorating the bottle.

On a more altruistic level, Manchester Airport has become the major sponsor of the arts in the north of

England, investing over £1.5m on such local companies as the Hallé Orchestra, the Tate at Liverpool, the Royal Exchange Manchester and the Manchester Year of Drama. Here is a good example of self-interested patronage, helping the arts but also raising Manchester's profile as a travel destination.

The most encouraging features of the year have been the return of traditional sponsors which held back during the recession, like Nat West with its new art prize, and the penetration of the message into the regions and down towards medium sized and small companies. Indeed the London based companies are finding it hard to maintain their sponsorship income.

The fastest growth has been in the north, with the Halifax Building Society and Boddingtons, the brewers, prominent new sponsors, while it is the professions, notably solicitors, surveyors, and especially accountancy practices, that have proved useful friends for many local arts organisations.

One of the most satisfied accountancy sponsors of 1994 was Ernst & Young, which put £500,000 behind the Picasso exhibition at the Tate. The publicity and entertainment spin offs exceeded its expectations and it is quickly returning to the Tate, backing a Cézanne show there.

There is more imaginative arts sponsorship than ever before. Companies are more inclined to offer help in kind: they are also leaning specialist staff – accountants, computer experts, etc – to arts organisations under schemes like Business in the Arts: there is more interest in sponsoring the adventurous (like Michelob's support for fringe theatre and Toshiba's £500,000 help for the ICA), or commissioning new music, new drama, new art (although the New Contemporaries travelling art show desperately needs a sponsor following BT's withdrawal).

It remains true that many arts directors spend time chasing up sponsors which could more fruitfully be directed at creative work, but there have been no indications that sponsors have ever tried to determine the artistic programme. The relationship over the past two decades has been largely beneficial – opening up the eyes of business to the imagination of the arts, and teaching the arts something about commercial reality.

# Young writers show dramatic talent

The showcase season of this year's 21st Royal Court/Marks & Spencer Young Writers' Festival consists for the first time of two alternating double bills rather than a single clutch of plays.

The writers, aged between 15 and 22, all display a bountiful degree of promise and one of the works on show is a little

gem in its own right. Corry Boys by 16-year-old Derry lad Kevin Coyle is a sometimes aced teenage-view of teenagers. Although set in Derry, it is concerned less with a particular city than a partic-

ular generation, the nothing-in-particular youngsters whose late spokesman Kurt Cobain adorns the T-shirt of one of the characters.

The series of vignettes draws much laughter of recognition as Dave and Barry awkwardly work up to asking Angela and Kerry out for a big date at a café or down at Kentucky Fried Chicken – and also as they try in vain to deal with the neighbourhood psycho, Chopper. When Coyle occasion-

ally tries to be flash or profound his script rattles, but when the piece sticks close to home it maintains a satisfactory chunkiness.

Essex Girls by Rebecca Prichard is a fairly blatant comic-tragic contrast. In the first act, a trio of would-be susses hang out, smoke and talk sex in the girls' toilets of a comprehensive school. In the second, depressive Kim – effectively abandoned by the drunkard father of her son – is vis-

## The world is likely to hear more of these budding playwrights, says Ian Shuttleworth

ited in her high-rise by her best friend, who tries desperately to snap her out of her lassitude for even a short while.

The latter scene goes beyond simply subverting the considerable humour of what has gone before, and gives the play the air of an exercise in technique. Nevertheless, Prichard will certainly learn to structure her dramas less

obtrusively (this is her first play) and already has a sensitivity for character and a keen ear for dialogue.

Roxana Silbert's direction is alert to the moods of the plays, and creates an evening of solidarity rather than sensation. The most impressive performance on the bill is that of Siobhan Hayes as Kim in *Essex Girls*, who capably conveys her character's mood of

grey rather than black depression.

Co-director Jane Collins has the better deal in terms of material. Fifteen-year-old Hayley Daniel's *Looking for Home* kicks off the second bill, portraying the arguments of a divorced mother and her 13-year-old daughter with an often uncomfortable rawness. Sam and her mother both say exactly what they feel, partly because theirs is not a relationship that observes polite conventions and partly because Daniel has yet to acquire the skill of coating her characters with such a veneer.

Yet the glimpses into Sam's childish fantasies, and the fact that they complement rather than supplant her grip on reality, are affecting, and Sarah-Jane Potts is quite remarkable in her professional stage debut in the role.

The jewel in the festival's crown, though, is *The Knocks* by Michael Wynne, aged 21. The Kelly family celebrate their grandmother's 70th birthday on a Birkenhead estate amid a culture of long-term unemployment and constant theft – as the story begins, son Joseph himself knocks off the family video, later joking that hot VCRs are virtually an alternative currency. The play is an impressive blend of hilarity and poignancy, grit and sardonicism.

Chess No 1844: One solution is pawns at a4, b2, c8, d6, e1, f6, g5, h7. Theme – keep the pawns out of the four corners and four central squares, and it helps to look for squares a knight's move apart.

Wynne's dialogue is frequently so marvellous that I was reduced simply to nothing down my favourite lines, such as "I hope he's cut down on those pot noodles – he smelt like he had an alien up his arse last time."

This is kitchen-sink drama in the "everything but the..." sense. Young Steven, a witness to his brother's burglary, lurks under a grey cloud of petulance while sister Lizzie agonises about the morality of the "dodgy money" she earns at nights – another strong performance from Potts, matched by Elizabeth Berrington as the irrepressible aunt to whom the unburied herself – and Ma Kelly keeps the family together in best Boswellian fashion. Wynne somehow manages to put a triple twist into an almost wordless ending, played out against the bathetic strains of Dinne Warwick.

The world is likely to hear from most of these writers again, and in Michael Wynne's case this particular corner of the world can hardly wait.

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## HOW TO SPEND IT

# Making up is so very hard to do

If you are by nature shy and retiring, if you feel at home with the refined no-makeup look faces of the Armani or Calvin Klein woman, prepare for a tough season.

All those pale skins, non-descript beiges and all that exquisite tastefulness, are being replaced by something much more alarming - up-front reds, look-at-me fuchsias, smouldering eyes and aggressively manicured nails.

There is a brassiness, a feistiness abroad. That at least is the message peddled by designers, make-up artists and models but, as with most such messages, it is first aired in an extreme and exaggerated form. After all, if it was not, would anyone take any notice?

For those who live in the real world, and have to get by without top-model Nadja Auermann's platinum hair, dangerous eyes and towering body, adopting this look wholesale would probably be unwise but, nevertheless, there has been a mood-change and there are ways of reflecting it without looking...well, daft.

If you want to know how, there are few cleverer exponents of the art of making-up than leading make-up artist Kevyn Aucoin. In a book to be published shortly he takes us on a trip through the world of gloss and foundation, powders and potions, brushes and blenders. The photography is beautiful and wonderfully explanatory. The end

result may look like alchemy but Kevyn Aucoin gives us the nitty-gritty details. There, for instance, is Kate Moss, the role-model of waifdom and grunge, newly done over in 1990s' glamour.

There, too, is model Patti Hansen, made-up to show us how one face can project a powerfully different image by using different colour combinations: pale, luminous with light eyes and mouth; then chicly dramatic with a slicked-back bob, light eyes and vermilion mouth;

**Lucia van der Post**  
on how a skilful  
artist can transform  
your appearance

"European-style" glam, all dark mouth and dark eyes; finally, we have her in what he calls the most sophisticated mood - dark eyes and light mouth. All these looks - he swears - are created with minimal changes so that a fresh, light look for daytime can be easily and quickly intensified for evening.

To show the chameleon-like ability of hair and make-up to project powerfully different images, he presents a fascinating selection of make-overs - these are the favourite stuff of magazine picture editors, for the photographs are convincing evidence that almost all who want

to look good these days can look good. But Aucoin himself approaches make-overs with diffidence. "When I think of make-overs, I think of those awful 'before' pictures in which the woman is captured sitting under a fluorescent light with no make-up on, her hair frizzed out, wearing the expression of someone who has just been told something terrible. Who wouldn't look better in the 'after' shot?"

Nevertheless, I defy any woman to look at the "before" and the "after" and not be encouraged - fairly ordinary-looking women have been transformed by skilful make-up, good hair-cuts and marvellous photography.

Although Aucoin is informative on all the techniques of making-up he is, perforce, short on giving details of products.

I therefore asked Val Garland, a British make-up artist working in the fashion field, to give us some tips of her own.

Colour, she says, is the make-up statement of the season - and the hottest colour to grace lips and nails is red. But bright, brilliant red, she warns, may do wonders for Paloma Picasso but does not suit every skin-tone. "There are other ways of using red," she says, "than just one brilliant slash of colour. Many of the cosmetic companies have produced soft red shades - Mac (only available at Harvey Nichols) and Clinique for instance. If you have a dark red that you find too



The power of make-up to project an image: Eva Herzigova made-up in 1990s' style by Kevyn Aucoin and photographed by Steven Klein for Norma Kamali

strong you can dilute it with some of Kevyn's lip-balm for a softer look. You can apply a real red to the centre of your lips and blend it out to the edges with a lip brush or cotton bud for a more subtle look.

"Those going for the really bold approach should use a lip-liner to form a perfect lip outline (Mac has a

true red pencil). This will help prevent the colour bleeding. Then the chosen red should be applied with a lip brush, it should be blotted with a tissue and then reapplied. This way your lipstick should stay put.

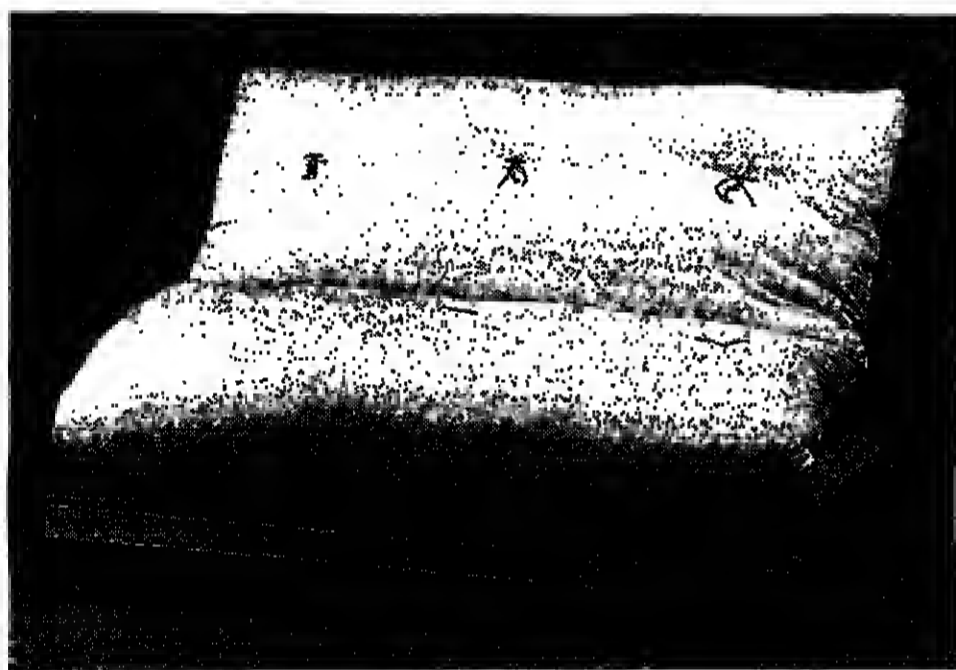
"At night you may want a stronger red - Helmut Newton-style.

After you have applied the lipstick as outlined earlier you should then put some lip gloss in the middle only of the lips (if you put it near the edges it will smudge).

Her favourite reds for this season are found at Mac, Prescriptives (by Clinique), Paloma Picasso, Chanel (Rouge Coromandel for those who

like it bright, Rouge Star for a subtler look) and Yves Saint Laurent.

■ The Art of Make-up by Kevyn Aucoin. (Pb, £10, 175 pages) is available from November 1. On Tuesday, November 8, he will be demonstrating his skills and signing books at Harrods, Knightsbridge, London SW1 from 12 to 2pm.



Sofa by day, bed by night, with a hardwood base, £975

## The cult spreads

Muji, for many who are within reach of one of its four branches in the UK, has become a cult shop. It arrived with a formidable reputation from Japan where, in that land of widespread devotion to the designer label, it had managed to build

itself into a chain of 221 shops all purveying the notion that a "look-no-label" (which is what Muji means) range had a chic all its own.

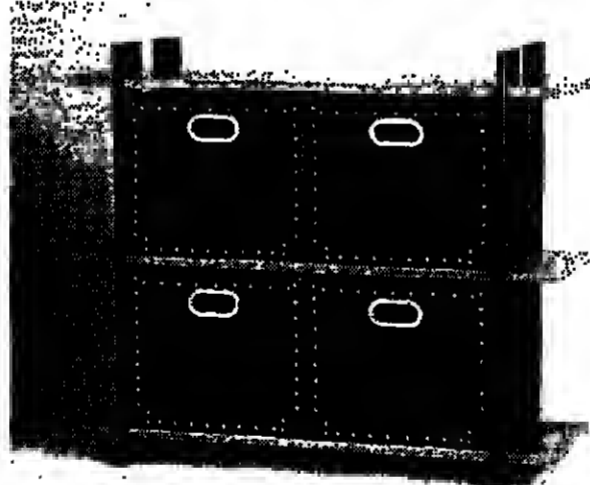
Of course timing is all and Muji's arrival coincided with the mood for a simpler, more pared-down approach to living. It became a hit with the young

who loved the fact that it concentrated on needs and seemed to have no interest in creating wants, that it provided them with the basic essentials for homes and bedsits and that, above all, simple was not a euphemism for cheap.

Having found that its shops in London's Great Marlborough Street, Covent Garden and Glasgow have made a niche for themselves, Muji is now trying to reach a wider public. This week it opens in Kensington High Street, south London, where it is going to have to compete with the offerings of some of the most successful chains - from B&N and Marks and Spencer to Warehouse and C&A.

To do this Muji has been carefully redefining its ranges over the last 18 months. The strong yen had made many of its products, immensely desirable though they were, seem expensive by the time they reached the UK. Muji has therefore been looking at sourcing many of the ranges outside Japan and prices are now

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much keener. Bed-linen, which used to come in sizes that did not conform to British beds, is now being sourced in Europe and will fit European beds. Clothes are being sized up to new LL and XL sizes to cope with larger western bodies. Muji's underwear range is already well established (it is very popular with my own children). Cult items include stationery and snack-foods. In the Glasgow branch foods such as dried shrimps, seaweed, chocolate pretzels and butter cookies are among the best-sellers.

■ The new store opens at 157 Kensington High Street, London W8 today and there is plenty of new merchandise. Its mail order brochure will be available from the shop or by ringing 071-494 1197.

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## The ring cycle

### A commitment that matters

The rite of the engagement ring, I discovered when doing a bit of research a few weeks back, lives on - in the UK at least. In Britain, 96 per cent of men buy their brides-to-be an engagement ring. And very nice, too.

But these days, if statistics are to be believed, marriage is not what it used to be and a "relationship" has become the new institution. For any jeweller worth his chisel these changing times represent a challenge.

So it had to happen - what we have now is the commitment ring. No longer is there any excuse for a chap to be stingy with the jewels - the commitment ring is what he can give to her when he is chary of stepping down the aisle.

Hennell of Bond Street, one of London's oldest fine jewellers, has decided to bring itself up to date and this week launches its new, streamlined, 1990s version of the old-style engagement ring.

Designed by Dennis Gardner, Hennell's head of design, it is simple in the extreme - in pure gold or platinum the ring is not quite closed, leaving a symbolic gap. One of the open ends of the ring is finished with a brilliant diamond, the ring comes engraved with two sets of initials and, for those who like jewellery to match, there is a bracelet which is simply the open-ended ring made larger.

The rings start at £750 (for a diamond the size of a tenth of a carat, prices go up as the



The commitment ring: for those who prefer 'a relationship'

diamond gets larger and a sized-up ring with a half-carat diamond for instance would cost £3,500.

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go up as the diamonds get larger.

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## FASHION

## Suits are serious this season

*Avril Groom has been combing the catwalks and the high street for plain and simple clothes*

A woman who went to German designer Jil Sander's new co-essence at Harrods recently bought seven suits. Perhaps she needed one for each day of the week, such is the pull of the serious suit on the modern woman. It is the same story at the

Sander shop which Browns has opened in South Molton Street, W1. Amid the cool marble and glass, suits are sought after. They cost £1,200 on average, their popularity reflecting their importance in a well-planned wardrobe.

This season it should be your main buy. On almost every catwalk at the autumn shows,

behind the unwearable razzmatazz, was a suit which could rise to any occasion. The jacket, leanly-cut or flared out from a neat waist, was long enough to act as a coat over the new short, A-line skirt.

The majority had matching trousers, slim enough to go with new-glamour high heels

and to look smooth with an A-line tunic.

Sander's suits are plain to the point of severity, made from the finest of drapable wool, cut with shoulders that are defined yet soft, and shaped with gently arching seams that flatter but never constrict.

Feminine authority is a good

description for fashion's U-turn towards a dressed-up but still soft look. A good investment, they are impressively minimal when worn alone but can form the ideal foil for a new season's accessories.

Such plain suits profit from a little wit and whimsy. One lesson from the muddled fashion of the 1990s is that individual-

ity pays. The minimal-suit clue is as boring as the gut-button clone. So use your suit as background material, making it your own with imaginative accessories - the mini-bags, jewel-bright angoras and ankle-strapped high-heeled shoes that create a tone of light-hearted glamour.

This is where the high street comes in. From designer diffusion ranges to department stores and chains, mass market fashion now reacts so quickly in interpreting catwalk ideas, and has improved its quality so much, that there is little point in buying the expensive original of a one-season wonder.

There are just two areas this autumn where one might advise caution. A-line skirts from youth-market chains are very short so you might prefer more sophisticated sources. And the new influx of bright or metallic colour can be very garish at the cheaper end.

Nevertheless the high street is well worth searching. Oasis fringed scarves cost under £15 and French Connection's soft and dusky velvet A-line tunic is £89. At Whistles (strictly speaking more of a chic boutique chain) there is a silk satin shirt in a particularly luscious muted pink, redolent of 1930s glamour, at £110.

The main suit is one item where the rule of thumb is to buy the best you can afford - it will make those high street accessories look classier. There are good, plain suits at all levels. When clothes are shorn of detail, cut and finish become paramount and need close examination before you buy. Dorothy Perkins' newly revamped range, Jigsaw and Marks and Spencer easily pass the quality test for young women on a budget.

With middle-range suits costing about £400 each, it is worthwhile, if you can, going up a notch to a level where excellence of cut and finish, plus proper design input, are taken for granted. It may seem a lot to pay £500-£800 but designers are well aware that their customers want lasting value. Rightly, you get more cut and less detail for your money.

Choose a dark, plain colour for maximum mileage. Black is obvious but less versatile for a suit which must presumably go from day to night and town to country. Charcoal, navy or deep taupe are better choices. Pastelries are hot, but think before you buy - will you still want them next year?

We have listed the best suits, all beautiful, versatile and useful in the long term. The Alberta Ferretti style photographed here has all the qualities of contemporary glamour - soft, matt fabric, a slim-waisted, flattering shape and a chameleonic ability to go with this season's essentials.

Sketched here are just some of the clothes that will give your suit the extra mileage to take it through the winter.

Slate-navy soft wool slightly flared jacket, £490, trousers, £190, both by Alberta Ferretti from Harvey Nichols, Knightsbridge, SW1. Brown shoes, £185 from Gucci, Old Bond Street, W1 and Sloane Street, SW1.  
Hair and make-up by Mario Yanni for Nicky Clarke, W1, with Nicky Clarke Hairmatherapy products.  
Picture James Martin  
Drawings Kim Datzell

Evening

**WAYS TO WEAR THE SUIT:** With an A-LINE SKIRT AND WAISTCOAT (illustrated top right) and suit jacket. Navy tartan version by Donna Karan, £175, waist-coat, £150 from Browns, South Molton Street, London W1.

**THE TUNIC** - to be worn over suit trousers. Deep charcoal velvet tunic, £89 ink blue silk shirt, £65, (illustrated), both from French Connection, Regent Street, W1 and branches, Way In, Harrods, Knightsbridge, SW1 and Fenwick.

**COLOUR** - a little goes a long way. One bright sweater or vivid bag is fine. Illustrated: Red panned velvet body, £135, and red satin rucksack with diamanté snuffie, £265, from Gucci, Old Bond Street, W1 and Sloane Street, SW1.

**PASTELS** are an alternative and the same rules apply. Illustrated: muted pale pink silk-satin shirt, £110 from Whistles, and cropped soft pink mohair tank top, £24.99 from Warehouse.

**EVENING** - To make yours a dinner suit, add satin side-striped evening trousers (Marks and Spencer, £45), and (illustrated left), a black lace body by Christian Lacroix Bazaar, £99 from Debenhams and Jones, Regent Street W1, and ribbed velvet coat with quilted lining by Sahza, £239, from Fenwick.

**SILVER EVENING** - a Lunex sweater, £195 from Edina Ronay, Kings Road, SW3 and Harvey Nichols and silver velvet scarf, £12.99 from Dorothy Perkins.



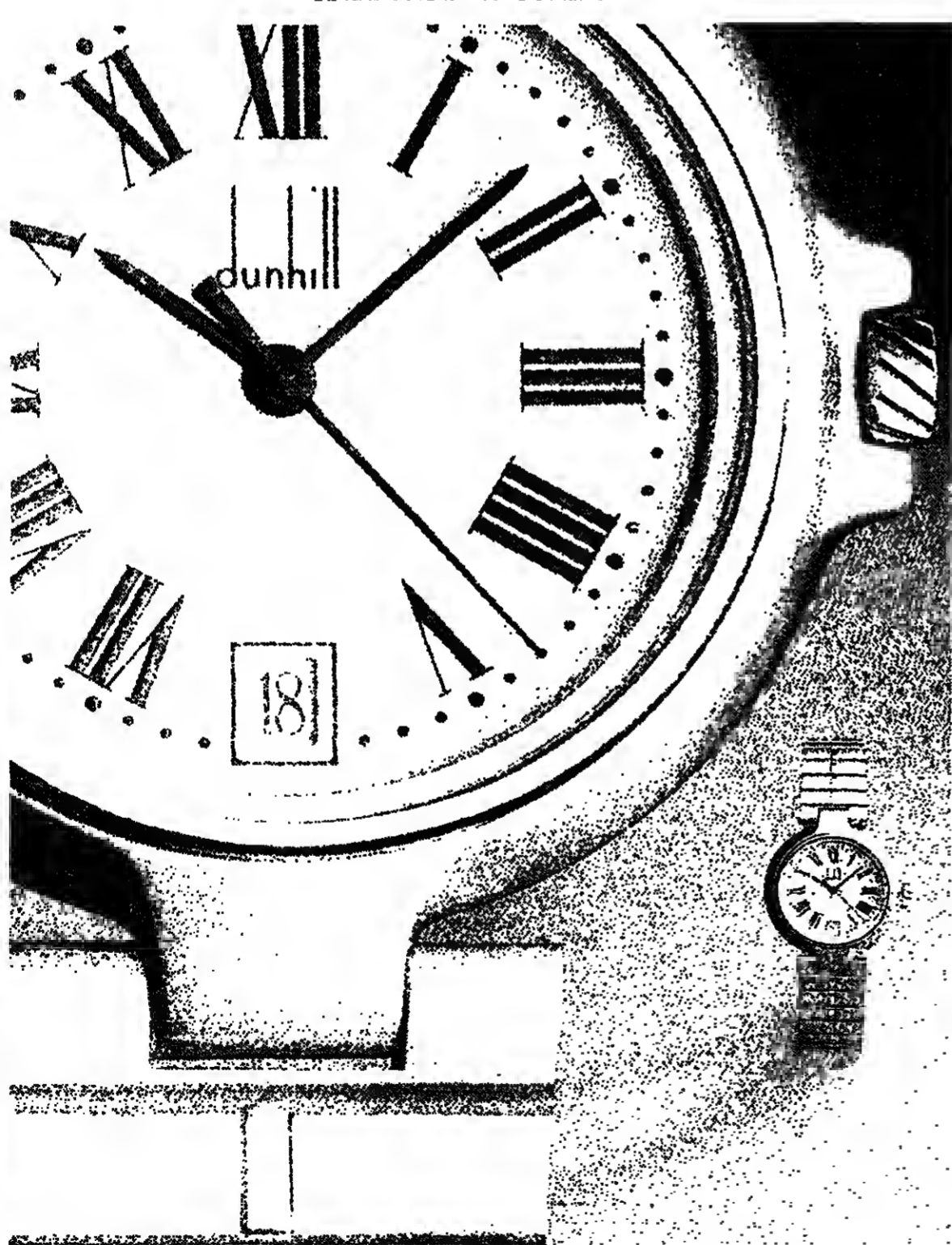
## Where to buy the best suits

- Chanel, Old Bond Street, W1 and Sloane Street, W1 - black and white tweed, very fine diagonal stripes. Four-glass long jacket, short skirt, £1,650.
- Catherine Walker at the Chelsea Design Company, Sydney Street, SW3 - pale grey soft wool twill, jacket curved to fit, four buttons, soft, slim trousers. Made to measure. Jacket from £395, trousers from £395, waistcoat from £395.
- Amari, Sloane Street, SW1 - grey soft rayon/silk chenille herringbone, double-breasted jacket, trousers, £1,400.
- Jil Sander, South Molton Street, W1 and Harrods, Knightsbridge, SW1. Wool, long slim jacket and trousers, £1,225.
- Ralph Lauren, New Bond Street, W1 - navy fine wool slim, long blazer, single-breasted, metal buttons, brown velvet trim, £255, slim trousers, £245.
- Caligaris, Harvey Nichols, SW1 - charcoal wool with faint stretch and sparkle, long, slim, plain jacket, £470, very slim trousers with turn-ups, £205.
- Caren Pfeiffer, Harvey Nichols, SW1 - very long grey or black three-button jacket with slight swing, £460, soft trousers, £210.
- Caroline Charles, Beauchamp Place, SW3 - grey flannel jacket with buttons on loops at waist, £387, soft trousers, £239.

**SHOES** - high heels, ankle-straps, tango or tap dance styles - (Russell and Bromley, £110). Over-knee boots. Stilettoes even on soft suede ankle-boots (Manolo Blahnik, £350).

**THE KNIT DRESS** - to be teamed with the jacket. Avoid high-waisted versions unless you are slender. Fuzzy finishes are fattening. Warehouse's A-line angora in black or pale blue (£54.99) and Alberta Ferretti Philosophy's mohair in charcoal or brown (£149, Harrods' Way In) are simple. So is the beige knitted dress by Fern, Wright and Merson, £69, from Fenwick, New Bond Street, W1.

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## PERSPECTIVES

# Monuments for the millennium

We asked readers how Britain should celebrate. Antony Thorncroft received hundreds of ideas

The Millennium Commission is seeking your ideas on how the nation can best celebrate the end of the second millennium. The Government has set aside a fifth of the proceeds from the national lottery - a possible £1.5bn - to ensure the party will be worth remembering. We asked our readers to help out the commission with suggestions.

We obviously touched a nerve - the response was tremendous, producing hundreds of ideas. Many shared the same vision: that the money should be devoted to nature - to more parks, trees, flowers along every highway, the greening of the land.

Many had a more 21st-century vision, pushing for information highways, science parks, a computer terminal for every home.

Many more wanted the money to go, not on buildings or objects, but to the poor, in improving health care and housing estates, a view summed up by Cessna Vaz who

suggested a ticker-tape extravaganza, pouring money down on the needy.

There was an enthusiastic lobby for a national virtual-reality centre (Sam Briddes suggested the old Paddington goods yard as the site) to which the whole nation could tune with their Millennium computers. Peter Howe even suggested a virtual-reality monarchy to take the strain off the Queen.

Past national celebrations have focused on buildings - the Crystal Palace in 1851, the Festival Hall a century later - but, apart from the brave idea of a North Sea Tunnel linking eastern England to Scandinavia, there was no great support for a 2001 monument.

Among the ideas were a gigantic national museum built of titanium; a matching obelisk for Cleopatra's Needle; a rocket-shaped skyscraper topped with telescopes; and, on a bumber plane, Lt Col Colin McVean produced very specific plans for a sundial which could be attached to existing structures like Nelson's Column, or to village maypoles, allowing the nation to keep time during the Third Millennium.

Some suggestions seemed rather self-serving - King's Jazz Review wanted a traditional jazz jazzteria; others were universal, like R.S. Osmaston who wanted every 18-year-old in 2000 to be given £1,000 if they had no criminal record.

There were the idiosyncratic -

like Andrew Seed's plea for a vast gambling centre, a British Las Vegas sited near Manchester; plans to build a new town that looked exactly like Elizabethan London; to dismantle hydroelectric dams in Scotland to restore beauty to the Highlands; or allocate a Scottish island, perhaps Arran, for the Chinese wanting to leave Hong Kong in 1995.

There was a big transport lobby, wanting cycle lanes traversing the land; off-street parking for every vehicle; free cycles for all; bullet trains; a Peace Ship 2000, with concert areas and exhibition space; and 2,000 barges sailing down the Thames. It was only matched by advocates of more national parks;

lunge for cities; and banning cars. There were supporters for exploiting the potential in hydro-gel; advocates for harnessing tidal power; for making more use of water, from the ocean resources to reclaiming deserts. There were those who wanted a university for the 50-plus generation and many suggestions for a grand new national museum, perhaps a 21st-century Crystal Palace, reflecting the past but also looking towards the future, forming the greatest scientific resource centre in the world, or, in the words of William MacKay a "World Millennium University".

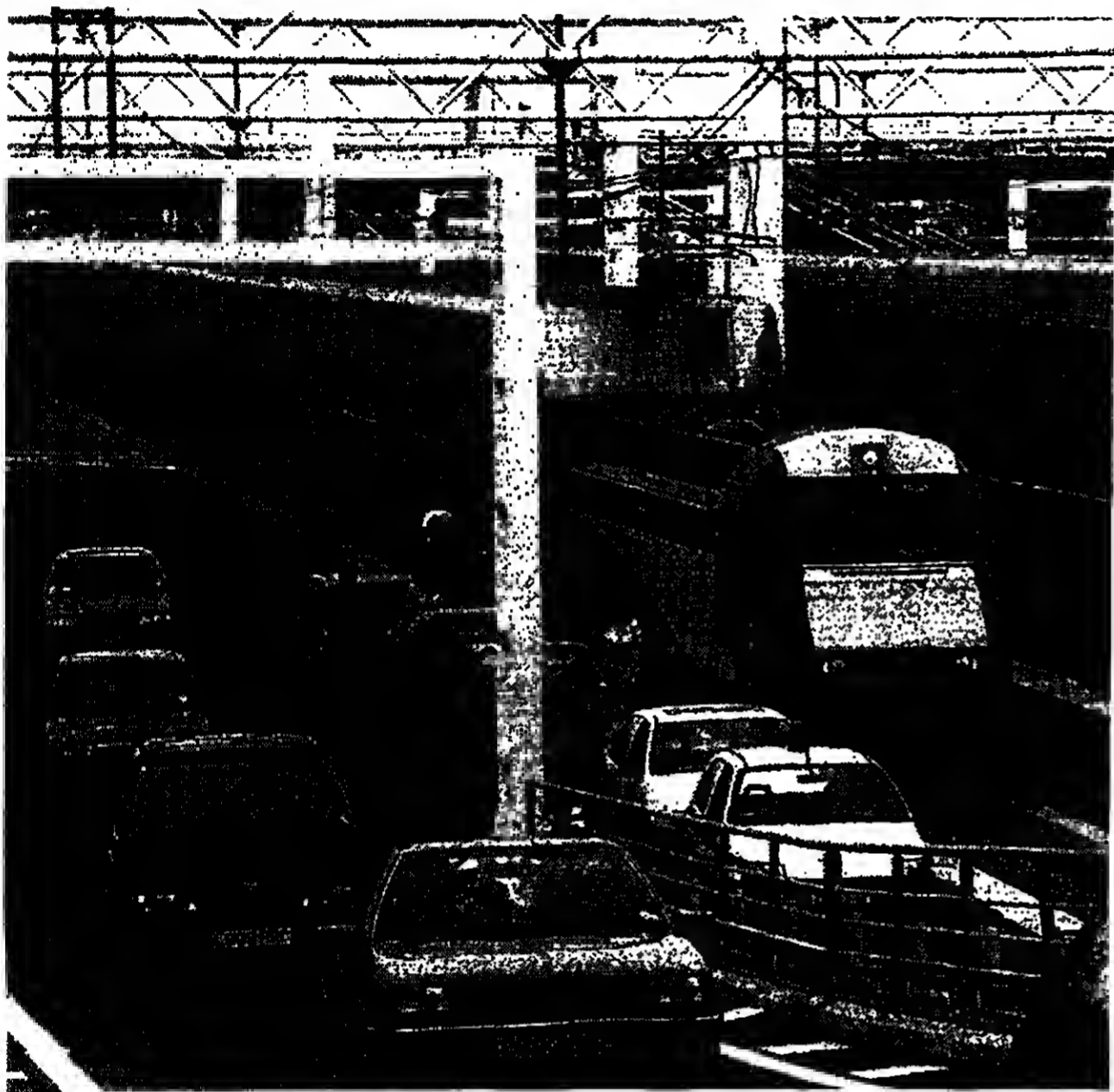
For the winners I was divided by the most imaginative ideas and the most comprehensive lists of sensi-

ble suggestions. Among the latter, John Chink supplied 15 including such novelties as a Peace Prize for Britons and a British attempt to capture every Guinness record; T.P. Butler costed a range of ideas and came up with the wheeze of investing much of the Millennium Fund in the stock markets and real estate of Asia so that the revenues last for ever; while N. May was practical, with free calls to one specific number (to a son or daughter) for over 60s; free electricity in 2000; and a birthday present of a block of Premium Bonds for everyone, not cashable for three years.

Among the imaginative ideas Tony Sanderson of Oxford thought big. He wanted to recover much of

the North Sea and the Wash, thus extending the land of the nation. He also envisaged a mountain range on the Welsh borders and ideal for skiing and walking. It would give the Midlands warmer summers. The bulk would come from the waste of industrial cities.

But the winner is Darren Ross of Sunderland who envisages 2000 stone monuments erected around the coastline of Britain. Not amazing in itself but Mr Ross imagines a carving on every stone, a poem, a legend, a picture, telling the visitor about the locality. Each stone could contain sundials, compasses, maps, optical illusions. It could have a transmitter sending out a poem, a song, a description. The stones should be of human height and imaginatively carved. And at the height of the Millennium celebrations a laser could link every stone, encasing the nation in a uniting thread of light. It is imaginative, practical, and charming, and well worth a crate of champagne.



Off to the south of France: cars unloading from Le Shuttle at Calais

Julian Hayward

## Fast track to France

Bonjour, said the French Customs official, which came as a surprise as we were still in Folkestone. But Le Shuttle is full of surprises, whether it is Nicholas Grimshaw's breathtaking terminal or the sensation of driving your car along a platform into a train, which then starts without you noticing.

Among a five-car compartment belonging to Eurotunnel shareholders who had paid £30 for a return trip - 30 times more than their future concessions are worth -

was Elizabeth Hoonian, taking her second Le Shuttle trip. Relieved that she had not found it claustrophobic, her only disappointment was the lack of prestigious shops in the UK terminal.

"People have said to us we should sell our shares," she said, "but we haven't and we won't. We feel that Britain needs a national project and we bought the shares because we believed in the idea of a great British venture."

Jane and David Warren bought their

shares in Eurotunnel because he hates travelling by sea and she loathes flying. "I'd definitely use it again - especially as I hate the ferries in winter," said David.

Seconds after leaving Le Shuttle, you are on the motorway heading towards Paris, marvelling at the lack of formalities and the ease of the journey. That is, until you realise you are driving on the wrong side of the road.

Heather Farmborough

All in the Mind/Andrew Derrington

## Switched on to pain

Anyone who suffers frequently from a bad back - and that includes one in four Britons, according to a recent study - knows all too well that science has not been very good at controlling pain. But scientists are catching up.

It has long been believed that pain is the body's alarm signal to prevent further damage (such as to a finger on a hot stove). But why then do we feel chronic pain, long after the body could take avoiding action? Recent research suggests an answer.

The main point is that signals about damage do not always pass straight into the part of the brain that experiences pain. The signals can be blocked or amplified by switches in the spinal cord. And signals that have nothing to do with damage can be switched into the alarm system so that they cause pain.

Scientists are now trying to understand how to manipulate the switches so that pain can be controlled.

Acute pain after an external stimulus is still best thought of as a damage warning. Specialised nerve cells in all parts of the body activated by stimuli, such as from a cut or a burn, send signals into central pathways of the brain and nervous system where electrical activity causes the sensation of pain.

The brain works out where the pain has come from by knowing which part of the pathway is stimulated.

For example, a knock on the "funny bone" causes pain over a wide area of the hand and arm because it strikes the nerve-carrying signals from this area.

Indeed, one of the cornerstones of modern science is the idea that the sensations we experience from a particular stimulus may be different, depending on which pathways in the brain are activated.

This helps to explain some of the puzzles about the damage-warning theory of pain. For example, why does vigorous rubbing of an injury sometimes relieve pain, whereas in other circumstances the lightest touch can be agonising? How can an amputated limb hurt? Why, in chronic pain, does the alarm continue to ring long after it has served its purpose? The answers come from research on the switches that block or redirect pain signals.

The first suggestion that pain signals could be blocked from entry into the spinal cord came in the mid-1960s. It was

proposed that they pass through a sort of gate that can be closed by a circuit activated by other sensory signals.

There is now much support for the gate theory. Rubbing the skin relieves pain because it generates sensory signals that activate the circuit that closes the gate. Acupuncture

and electrical stimulation of the skin work in the same way. Morphine's analgesic effects occur because it mimics a chemical that closes the gate.

The gate can also be closed by signals descending from higher levels of the brain, to block pain if we need to act to avoid something even worse.

Wounded soldiers can often disregard injuries until they are out of immediate danger.

A different set of spinal switches amplifies pain. Prolonged or intense signals in the damage-sensing neurones have two effects. Central pain pathways become more sensitive to their normal inputs so that pain is amplified. They also become sensitive to signals caused by touching or moving the skin, so that these, too, cause pain, but no damage.

This intensification of prolonged pain has doubtless

evolved to immobilise any part of the body which has become badly injured. So any sensations that result from a disturbance of the injured part (such as a hand or foot) are rerouted into the pain pathway, even when a similar movement would not in other circumstances have caused direct pain. The unfortunate consequence is that chronic pain conditions, for example from inflamed nerves, are made worse.

The pains that may be experienced in an amputated limb and by patients whose spinal cord has been severed (paraplegics) probably also owe much to this mechanism.

For even when a limb has been amputated its pain pathway in the central nervous system remains and can be activated.

Paraplegics usually lose all sensation below their spinal injury, but they may be left with severe pain. In some cases the spinal pathway carrying pain signals may be intact and other sensory signals may be channelled into it.

Scientists do not yet understand the details of the mechanism of central sensitisation, but it is the focus of important research in universities and in the pharmaceutical industry.

A drug to reverse its effects - still many years away - would lighten thousands of lives darkened by chronic pain.

The author is professor of psychology at the University of Nottingham.

Research is answering some puzzles about pain theories

## How to sweat off the excesses of life

Christopher Parkes samples the rigours of 'the cure' in the Allgäu

It is four in the morning and there is a strange woman in my hotel room. I can make out only a pair of brawny shoulders framed against the light from the corridor. "Halt! Halt!" she says, and whips off my duvet. "Get up. Undress and drink this."

Nettle tea is a noxious brew at the best of times. And this is not the best of times. Naked, dangle the teabag to protect my modesty. I sip queasily while the night visitor deconstructs my bed.

"Lie down!" I edge forward into the light, and stretch out prone. The nurse ends in my backside tell me I am lying in a puddle of lukewarm urine. Receptors on my front-side twitch in anticipation. Then, splash! My knees jerk defensively upwards as I take a direct hit amidships from a cold, wet sheet.

Within seconds the icy wrapping stretches from my breastbone to my big toes. Now comes a layer of gelatinous hot water containers, strewn the length of my quaking torso. I am rolled and wrapped in blankets and feather-beds. "Foot-sites up. Armes so." Loose ends are stuffed. Corners tucked. "Good!"

Breathing heavily, she is suddenly gone; and I am immobilised in the darkness, scarcely breathing at all.

A 100kg roly-poly meat pudding, I lie still as death, only my nose showing. Then, unexpectedly, I am marinating in my own juices. The combination of wet linen, hot water bottles fore and aft, and heavy external lagging central to the implementation of the notorious Schrothkur is going to work, putting my sweat glands through their paces.

In spite of - or maybe because of - years of overdoing on stress and undesirable substances such as cigarettes and German sausages, I have cajoled myself into believing that it might be possible to restore some of the more desirable bodily functions impaired by 30 years as a journalist.

Accordingly, I have come to the sub-Alpine village of Steibis in the Allgäu to regain the ability to breathe, eat and sleep properly. The rest can wait.

Deep in cure-and-cowbell country, close to where the Bavarian, Swabian, Austrian and Swiss borders mingle on the shores of Lake Constance, I have suspended my disbelief in natural remedies and thrown away my cigarettes.

Although the Schrothkur appeals mainly to slimmers, and I am told my 185m frame is not over-burdened by the 95.5kg weight registered on my arrival, I have decided that while XL T-shirts are fashionable, XL waistbands are for faties. At the same time I have convinced myself that if I can survive a week of early-morning "packing" and subsist on a diet entirely free of fripperies such as protein, salt and fat, then I can certainly do without my Dunhill Superior Milds.

It is only day one, but from within my tightening cocoon, the outlook does not seem promising.

It is now six in the morning and I am sorry I bothered to unpack my suitcase last night. Terminal claustrophobia is setting in, and there is an irritating whiff of old cooking under my itching nose.

Only now, as the enveloping angel returns to unpack my puffed-out body and allow me to drift back into sleep, do I realise that my own damp hide is the source of the kitchen aroma. The promised Entschlackung (slag removal when used for boilers and purification in bodily references) seems to be under way. Detoxification and breakfast beckon. But first, I need a snooze.

It is now 9.30 in the breakfast room in Bertscher's Hotel. After straying into a section where real people are eating real food, I have been forcefully corralled where I belong, among the sed-sacks and the gastronomically-deprived.

There, under my nose, sits a dish of weapons-grade muesli. I murmur that humans need at least two stomachs, ruminant-fashion, if they are to extract any nourishment from this gritty slurry of coarse-chopped raw grain.

But Frau Wunderlich, some 20 years my senior and 20

times as fit, has been coming for years and knows better. She even thinks a big strong chap such as Herr Parkes should have a bigger portion than the one she has just enjoyed.

She is wrong, thank God. The waitress, plump as a Weiswurst, shakes her head and her Bavarian bustle. Everything is as it should be: small in volume and lacking in flavour. As the Schrothkur litany says, seasoning arouses appetite, and you do not need an appetite when you are not supposed to be eating.

So it continues: lunch, then dinner and back to the breakfast grindstone. The worst is a dish of sauerkraut soup. Far from being a jumpier-peppery brew covered with globules of floating fat and speckled with chunks of Speck and sausage, it resembles nothing so much as a pair of undershorts boiled to destruction in Persil Power.

But meal times are not without their high spots. I still recall triumphantly counting 17 pumpkin seeds on my plate of lettuce, beet and cabbage salad one evening.

By day two, bets are being wagered that the solitary Englander is not going to make it, least of all with the cigarettes. Most have heard he is only there for a week, when everyone knows three weeks is the minimum necessary. They have also heard his descriptions of the preparation and consumption of Irish stew and eggs à la Bordelaise. They have seen him sitting close to smokers, inhaling deeply.

But what they do not know is that his modest expectations of this adventure are being more than fulfilled. He is sleeping like a baby. He is enjoying the morning physical jargon, even though most of the exercises are aimed at perking up breasts rather than building washboard abdominal muscles.

He is enjoying the companionship of it all and the pleasures of his comfortable room. He is astounded by the limitless views afforded from the nearby peaks and facilitated by relentlessly clear weather. It is mid-October, and he is sunbathing and swimming outside, soothed by the clonking of the cowbells.

The smell of old cooking has evaporated from his room and by Wednesday he has ceased to feel hungry. The sauna and plunge bath are no longer torture. They are necessary punctuation points in the day's rituals. After a rigorous afternoon ramble, a three-course sauna session sets him up to face his one-course supper and an evening's socialising in the bar.

Yes, in the bar. This is the do-you-good cure where the pain can be eased with analgesic booze. The drinks are limited to Wachold-

erschappis, a diuretic derivative of lamp-oil and juniper berries, and Steiner white wine, a tongue-peeler reportedly related to the Riesling grape. But no one seems to Steiner before the ancient DJ is through his first session. More knees-up than leg-over, big-drinks Thursday is a noisy, rather than a naughty, affair and signals the start of the transition from asceticism to more normal existence.

On Friday, those about to depart are allowed a "build-up" dinner of a trout, unseasoned, cooked in foil. By Saturday night this departure is down the road to nearby Oberstaufen in the Enzianhöf restaurant. Starting with a roe deer fillet with Steinpilzen (boletus erubescens), red cabbage, fried gnocchi, a bottle of 1989 claret, he is chewing his way deliberately towards the body-of-bolies: desert.

It is 11am on my last day. I have enjoyed my "build-up" breakfast (but not as much as last night's affair: pear bread overlaid with gorgonzola and dribbled with booney). I have taken my last swim and passed to weigh myself by the pool 93.3kg wringing wet. That is a good 8kg lost in a week, and I have not had a cigarette for eight days.

I am still smiling smugly as I step out of the hotel, blinded by the dazzling autumn sunshine, and almost colliding with an indistinct figure striding urgently past. "Halt! Halt!" she says. I turn, but she has gone again.

Christopher Parkes stayed at his own expense in Bertscher's Kur und Sporthotel, 8974 Oberstaufen-Steibis, Germany. For reservations and details, ring 08336-8310, fax 831317.

Some of the names have been changed to protect the innocent (and the guilty).

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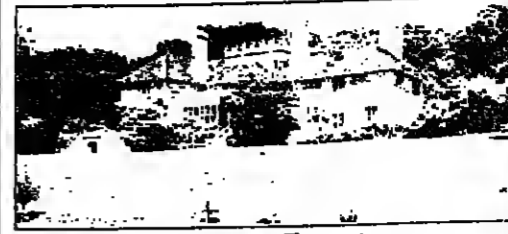
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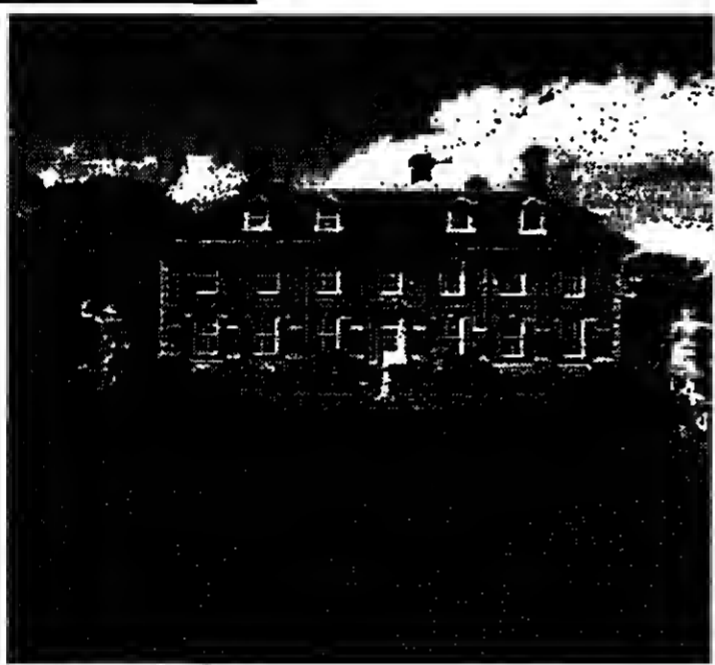
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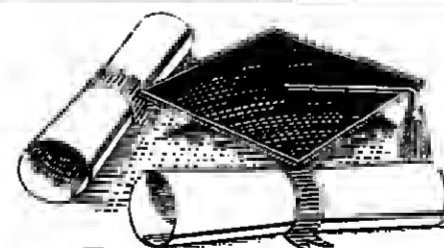
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## MOTORING AND SPORT

## Motoring

## A public test of their metal

Stuart Marshall visits the British International Motor Show in Birmingham

Insiders are inclined to dismiss the British International Motor Show, opening to the public today at the National Exhibition Centre near Birmingham as a re-run of the Paris Mondial de l'Automobile (this column, October 8).

Inevitably, the Paris show up-staged the British event. All the 1995 models were there; even the UK's new Jaguar XJs and Range Rover made their world debut in Paris, not Birmingham, though Toyota thought differently and chose the UK show for the European unveiling of its Lexus LS400 and Celica Cabriolet. Which is only a reflection of how international the motor industry has become.

In fact, most of the people who will crowd into the NEC for the next eight days will almost certainly be Midlands and northerners. Southerners prefer the London Motor Show, held at Earl's Court Arena on alternate years to Birmingham.

When the traditional annual motor show left London for Birmingham in 1978 and became biennial, the Earl's Court Motorfair started to fill the gap. The Society of Motor Manufacturers and Traders, which has always run the "official" show, disapproved of Motorfair at first but soon adopted it.

This year, the British International Motor Show has followed a lead given by the former upstart Motorfair. For the first time in 91 years, visitors



The Ford-Volkswagen Galaxy could challenge the Espace's domination of the multi-purpose vehicle market



The Ludo, Renault's city car for the young, features sliding doors and runs on environmentally-friendly LPG

can actually buy things on the exhibition floor. No, not yet cars. But a wide range of accessories and components awaits buyers in a 55,000 sq ft retail pavilion.

The show's main value is that it gives Britons their first chance to see in the metal the cars they have so far only seen pictured. One is the light-alloy Audi A8 luxury saloon, offered as a 2.8-litre V6 with front-wheel drive, or as a 4.2-litre

V8 with quattro transmission. Alfa Romeo's highly individual 145 hatchback is also there, although, sadly, not the toothsome new Spider.

Main interest on the BMW stand centres on the 3-Series Compact, due to sell from £13,350 and set to take BMW into Ford Escort, VW Golf, Vauxhall Astra and Honda Civic territory. At the other extreme is the marque's flagship - the 5-litre, V12-

engined, long-wheelbase version of the new 7-Series.

Citroën's Xantia-based Xsara concept car and the Ludo, Renault's idea of a town car for the young and active, should not be missed. The Ludo has sliding doors and runs on liquid petroleum gas (LPG). Renault says it approaches the environmental cleanliness of an electric vehicle but can be refuelled in a couple of minutes and has a

range of 250 miles (400kms). The Ludo's automatic clutch will, incidentally, soon be available on the Clio.

The multi-purpose vehicle (MPV) developed by PSA (Peugeot Citroën Group) and Fiat can be seen on all three companies' stands.

Ford's Galaxy MPV - another joint effort, this time with Volkswagen - also threatens to end the Renault Espace's long domination of

the European MPV market.

For buyers who stick firmly to the tarmac, part of the attraction of on/off-road 4x4 vehicles - like Land Rover's Discovery - is their elevated (Land Rover calls it "command") driving position. Thus, their makers and importers will be watching keenly the market performance of the new breed of European MPVs - which also have high-up driving positions, plus lots of

interior space and generally car-like ride and handling.

For the time being, though, sales of the 4x4s are standing up well, even if prices for the poshest ones approach stratospheric levels.

Interestingly, Mitsubishi's stand at Birmingham features a 2.9-litre, turbo-diesel version of the five-door Shogun, due in the UK early next year at about £22,500. It is equipped less elaborately than the origi-

nal but looks more elegant.

Two other 4x4s are well worth looking at. They are a prototype of a much better-looking, more powerful and easier to load Lada Niva Cosack, due to go on sale next year; and the quietly named but most attractive Saab 900 Musso. This rugged, four-wheel drive, five-door estate from Korea has a Mercedes-Benz five-cylinder diesel and will be on sale in Subaru and Isuzu dealerships in the spring. Prices are likely to be from £16,000 to £21,000.

If you fancy an affordable sports car, do not miss the Vauxhall Tigra and the eye-catching new Fiat Coupé. UK sales of the Tigra - with which I shall be dealing more fully next week - are less than a month away. The Fiat's British launch is not until next year but, if the Coupé is as well built and competitively priced as the Punto, it could be worth waiting for.

Much further off is the market launch of Mercedes-Benz's small SLK sports car, being shown at Birmingham as a concept. It has a steel top that power-folds into the body.

The show is open to the public from today until Sunday, October 30, from 9.30am until 7pm (5.30pm on the final day). Admission is £8 (children and senior citizens £4). The NEC charges £5 for parking. The organisers recommend travelling by train to Birmingham International, which is in the middle of the exhibition complex. Combined rail and motor show tickets are available from most stations.

## Football/Peter Aspdon

## Clouds drift across the Italian game

When Italian football first became available to British television viewers, it was like a breath of fresh air sweeping through the rancid mediocrity of Britain's domestic game.

Here was glamour, technical virtuosity, passion without violence, and the pick of the world's finest players strutting in front of capacity crowds in magnificent stadiums. Oh, and the sun always shone.

It might be something of an exaggeration to say that the positions of these two giant footballing nations have reversed, but not much.

Today, it is considerably more difficult to get a ticket to watch Newcastle United than Inter Milan, one is more likely to be stoned or bottled inside an Italian ground than virtually any other in Europe and, if you were manager of a World XI about to face Mars, Alan Shearer and Andy Cole would figure more prominently in your thoughts as a twin spearhead attack than Gigi Casiraghi and Daniele Massaro.

These are troubled times for the Italian football establishment. Last Sunday, three of the traditionally dominant powers in the game, Inter Milan, AC Milan and Juventus, all lost, the first time this had happened for no less than 25 years.

None of them looks like being a main contender in this year's championship, although Fabio Capello's AC Milan cannot be discounted so soon after their stunning 4-0 victory over Barcelona in last year's European Cup final.

With Roma topping the table, and Parma, Lazio and Fiorentina snatching at their heels, a new order is threatening to take over, prompting the inevitable question: are standards levelling upwards or downwards?

A look at the fortunes of Arrigo Sacchi's national side provides telling evidence of the latter view.

It may seem strange that a side that managed to reach the World Cup final and only lost on penalties to the best footballing nation on earth should, just a few months later, be in the throes of a crisis, but the cries for

Sacchi's removal are getting ever stronger, and his plea for patience, after three years at the helm, is beginning to look a little desperate.

A fortunate draw against Slovenia, followed by a none-too-convincing victory over Estonia, was not the ideal start to Italy's campaign to qualify for the 1996 European Championship in England; and next month Sacchi's side faces a confident Croatian team which can call on Lazio's in-form Alan Boksic and AC Milan's Zvonimir Boban for inspiration.

In truth, Italy's World Cup adventure, which relied entirely on Roberto Baggio's flashes of brilliance and some very stubborn defending, hugely flattered the quality of their football.

Where was the class and creativity in midfield for which the great Italian sides were famous? Nicola Berti, Dino Baggio and Demetrio Albertini, all fine box-to-box forgers, would not have looked out of place in a Graham Taylor side, while the two most exciting members of Sacchi's squad, Gianfranco Zola and Beppe Signori, were unable to win regular places in his line-up.

That they are still not automatic selections is an illustration of Sacchi's confused tactical thinking, as is his persistence with the ponderous Castigli, who has been warming the bench at Lazio for most of the last year.

It is hard to imagine him even being considered for a place in England's current squad, such is the embarrassment of riches available to Terry Venables in attack.

As for Roberto Baggio, a moody and sensitive player at the best of times, he is still struggling to shake off the niggling injuries which were so apparent in his remarkable performances in the US.

His cause is hardly being advanced by playing for a stale Juventus side which has plumbed new depths of tedium in its opening to the season.

Alongside Baggio is Gianluca Vialli, who might be said to be the living metaphor of the torpor afflicting the nation's football.

Once the golden boy of Sampdoria and the effervescent national side assembled so skillfully by Azzeglio



Roberto Baggio's struggle to regain form after the World Cup mirrors the Serie A malaise

Vicini, Vialli, slowed by injuries and painfully lacking in self-confidence, is beginning to wear the haunted look of one who knows his best days are long past.

He has once more shaved his head in a vain effort to induce an illusion

of sleekness, but he looks - and occasionally plays - more like Marlon Brando's renegade Colonel Kurtz at the end of *Apocalypse Now*.

The sight of Vialli and his even more statuesque team-mate, Fabrizio Ravanelli, labouring up front for this

most famous of teams in world football, before a half-full Stadio delle Alpi on a foggy, Turinese afternoon is not what we have come to expect at all.

Who will bring the sunshine back to Italian football?

## Tennis/John Barrett

## Born to be partners

A spirited win in this week's Marlboro Championships in Hong Kong by Byron and Wayne Black over world No 1 Pete Sampras and fellow American Todd Martin, ranked nine, took me back to a day in the mid-1950s.

The Black brothers' father, Rhodesia's leading Davis Cup player Don Black, had put up with my inadequacies as a partner on the day in question to steer us to victory in the British Covered Court Championships at Queen's Club.

They were carefree days as we made our impecunious way around the world following the sun. Then, after getting the wanderlust out of our systems, and accepting that we would never win Wimbledon, we returned to the real world to make our livings and raise our families.

Don Black went home to Rhodesia and shrewdly invested his modest savings in a piece of rich farmland in Mandara, 10 miles from the centre of Salisbury.

He built a couple of grass tennis courts so that he could maintain his links with the game as captain of the Rhodesian Davis Cup team.

In 1965 Don married Velia Williams, from South Africa, whom he had met at a party after she returned from a short spell as a dancer on the London stage.

Byron was born in 1969. Wayne four years later, and both boys inherited their parents' athleticism. Almost before they could walk Don had put short, sawn-off rackets into their hands and they virtually grew up on the tennis court.

On November 11 1985, a few months after Don and Velia's marriage, prime minister Ian Smith declared UDI and gradually the sanctions that were imposed began to bite.

Velia said: "Our business was ruined. Don had to turn to coaching to make ends meet. It was a nightmare. Then came war with all its hardships."

After Robert Mugabe became prime minister of the new Zimbabwe in 1980, Don built three more grass courts, plus a hard court, and developed his coaching business.

Meanwhile, Byron's career was taking off. He was considered the best junior in Zimbabwe with an unusual double-handed style on both wings. "It was just natural. Dad never

tried to change me, he just motivated and encouraged me," he said.

At 15, Byron won the All Africa Championships in the Côte d'Ivoire. This earned him a place on one of the new squads for promising juniors set up by the International Tennis Federation with help from the Grand Slam Development Fund, which is financed by a \$2m annual contribution made by the Compaq Grand Slam Cup.

Wayne and his 15-year-old sister Cara, have enjoyed help from this scheme.

Byron's French Open doubles victory this year with American Jonathan Stark has lifted him to a world doubles ranking of No 4. "It was a tremendous thrill, second only to my win over Ivan Lendl at Queen's last year. That showed me that I could live with these guys."

For Don and Velia their proudest moment was in 1989 when Byron, aged 17, had beat the experienced Nigerian Tour player, Nduka Odizor, in a Davis Cup tie in Harare. The crowd went wild and before the Nigerian team departed its manager, Jacob Akende, left an envelope for Byron with instructions for it not to be opened until they had left.

Inside were a few hundred dollars and a note which said: "There are only three great players in the world - Borg, Becker and Black. This is to help you buy your first stringing machine. Good luck."

Byron and Wayne have avoided injury and since 1993 have formed the Zimbabwean Davis Cup team, something few brothers have achieved: David and John Lloyd were members of the UK team that reached the final in 1978, while Vijay and Anand Amritraj did the same for India in 1987.

But only one pair of siblings has appeared in winning Davis Cup teams - the Doherty brothers, Reggie and Laurie, who achieved four successes for the UK between 1903 and 1906.

The dream for Don and Velia Black is that, one day, their boys might become the second.

## The Howe memoirs

Continued from Page 1

when he was dismissed as Foreign secretary in July 1989, in the reshuffle that followed Geoffrey's and my joint *démarche* on the eve of the Madrid EC summit. The draft resignation letter he then wrote, published in this book, gave as his reason for resigning partly the prime minister's "lack of confidence in our continuing partnership" (particularly over Europe) and partly (shades of the earlier Heseltine resignation) "my own developing anxiety at the way in which decisions are taken in the government."

Thereafter, he continued to brood about resignation, particularly after my resignation in October that year. But still, he would still not, I believe, have taken that fateful step, which was to prove the final nail in Thatcher's political coffin, had she not persisted in behaving with reckless disre-

gard for his position and opinions.

When Howe did eventually resign, there was initially some dispute as to what the issue between him and Thatcher really was. This uncertainty can be attributed largely to the lack of frankness in the treatment of the European issue in their exchange of letters.

When Geoffrey wrote in his formal letter of resignation that "I am not a Euro-idealist or federalist", he may or may not have portrayed his true position. When she replied that: "We want to play a leading part in Europe and to be part of the further political, economic and monetary development of the European Community. We have always been the party of Europe, and will continue to be so," she was cer-

tainly not portraying hers. In retrospect, it might have been better if their differences on the issue of Europe had been properly thrashed out within the government.

The question, essentially, is whether, as the great bulk of the Conservative Party and indeed the people of this country would hope, there is a viable and attainable constitution of Europe that falls short of full federal union - and, if so, how best to achieve it. That has always been the question. I remember having a heated argument with Hugh Galskell, not long before his death in 1963, in which he defended his vehement opposition, as leader of the Labour Party, to Britain's membership of what was then known as the Common Market, on the grounds

that there was no conceivable half-way house.

There is no doubt that any British government has an excruciatingly difficult hand to play. But the present prime minister could have made his task significantly less difficult if he had taken two complementary initiatives.

The first is to undertake that, if in the future (and it clearly could not in practice come during the lifetime of the present Parliament), the government were to conclude that the pound sterling should be abandoned in favour of a single European currency, the question would be so momentous that it would first be put to the nation in a referendum.

The second initiative would be to support the growing interest, especially in Ger-

many, for the adoption of a formal written constitution for what is now the European Union. This should state clearly which powers are reserved for the union, with everything else remaining with the still sovereign member states. Since part of the essence of a constitution is that it must be very difficult indeed to change, this should help end the fear that we are on an unstoppable federal centralising express.

Perhaps it is still just not too late for those two common-sense moves to be taken. If I have one regret about this important book, it applies equally to Thatcher's own memoirs. It is that most political careers end in disappointment, or worse, however great the preceding achieve-

ment may have been; and memoirs written (as they must be) at the end tend to be excessively coloured by that disappointment - as indeed the very title of this book bears witness.

Yet the truth is that the Thatcher era, in which Howe played a crucial role, was a remarkable decade: an age of reform, an age of optimism, and an age of achievement. If there has been a fundamental change for the better in the centre of gravity of politics in Britain, and the election of Tony Blair as Leader of the Labour party suggests that there may have been, it is the decisive break that was made in 1979, and pursued with unflinching resolution and remarkable success throughout the 1980s, that has brought it about.

Nigel Lawson's own memoirs, The View from No 11 - Memoirs of a Tory Radical, are published by Corgi Books at £9.99.

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Considering he was regarded as one of the towering intellects of his generation, appointed a university professor at the age of 24, and acknowledged as a seminal influence on some of the greatest literary and philosophical figures of the century, Friedrich Nietzsche has been ill-served by the caprices of historical judgment.

There are certainly easy jokes to be made at his expense. His invention of the *Übermensch* was a gift to today's pop culture plunderers, who never miss an opportunity, as in the cover of *Philosophy for Beginners*, to dress him in underpants-outside-tights and flowing cape.

In more sophisticated circles, mere mention of his name is enough to raise a guaranteed hoot of derision. In *A Fish Called*

## Who will wake us from our slumber?

Peter Aspdon says the need for a new Nietzsche — a wild and wise thinker — has never been greater

Wanda, Kevin Kline's loose hold on reality is confirmed when he wanders around reading extracts from *Ecco Homo*. Woody Allen, in a characteristic fog of existential angst in *Hannah and her Sisters*, contemplates becoming a Nietzschean, hinting against because the theory of eternal recurrence means he would "have to sit through the Ice Capades again".

The pathetic intellectual decline of Nietzsche's final years, as he marauded the elegant squares of Turin in a syphilitic haze, have not

helped his cause either. As the tone of his aphorisms became more savage, as his vision of transcendence turned into an unhinged apparition of despair, yes, he did indeed become mad. But should that remain the final word on his legacy?

Nietzsche died, with untypical neatness, in 1900; but has any figure cast a greater shadow over the torments of the 20th century?

Over the past week, select groups of devotees all over Europe and the US have celebrated the 150th anniversary of Nietzsche's birth. At the

Goethe-Institut in London, on a Friday night, three philosophers attracted a near-capacity audience to hear their difficult papers.

It would not be too much of an exaggeration to talk of a thriving cottage industry: as one member of the audience remarked during a tetchy exchange: "I don't think too many of us would be here if this was an evening about Kant." Nietzsche has pulling-power; he speaks, with increasing authority, to the modern sensibility. The philosopher who announced the end of

God has a place in the cosmic debating chamber, it seems, after the end of history.

In truth, like Karl Marx and Sigmund Freud, his fellow "modern masters of suspicion" as the French philosopher Paul Ricoeur put it, Nietzsche has been too easily marginalised by today's cultural commentators. Knock down the Berlin Wall, expose a few fraudulent psychoanalysts, laugh at the lunatic excesses of Zoroastrianism and we are rid of all three in one fell swoop, primed and proud for the

post-historical, post-industrial, post-modern age of... well, what exactly?

It is not as if we are over-flowing with fresh ideas and original values for the new millennium (we can't even decide, in Britain at least, how to spend the money allotted to trumpet its arrival). Many of today's philosophers spend their time huddled over grammatical oddities or looking for truth in a software programme. They publish papers on it, and the more papers they publish the more

research money they receive. It is considered rude to ask them what they are doing, and naive to look to them for genuine illumination on how to live our lives.

The need for another Nietzsche has never been greater: a blazing thinker, wild and wise, who can wake us from our slumber. He and his cohorts set the dark, disturbing agenda for the new century: instead of listening, we willfully misunderstand and ended with the atrocities of two world wars.

The post-war western world settled into the comforting homilies of consumerism and the playful banter of the mass media to try and forget, but it has not proved easy. In Bosnia, in parts of Africa, in the Middle East, we are reminded daily that we are, in the great man's words, human, all too human.

Private View/Christian Tyler

## Modest monk with a diplomatic mission

Dr Rewata Dhamma is a Buddhist who has made an impact on international affairs

A Buddhist monk living in Birmingham, England, is the improbable channel through which Burma's military junta has been seeking to end the country's diplomatic isolation.

The Venerable Dr Rewata Dhamma acted as intermediary for a historic meeting a month ago between the two senior military men in Myanmar (as Burma has been renamed) and the pro-democracy leader and Nobel peace prize winner Ms Aung San Suu Kyi, put under house arrest by the military more than five years ago.

Western diplomats were initially sceptical that an innocent-looking teacher of Buddhist meditation, philosophy and scripture, a scholar of Hindi and Sanskrit could play such a delicate role. There were suspicions that the generals might try to use him as part of a propaganda effort to improve the standing of a regime repeatedly denounced for its abuses of human rights.

Yet the fact is that the promised parley with Ms Suu Kyi did occur within weeks of Rewata Dhamma's second visit to Rangoon this year.

The ground was prepared in May this year, when, armed with a visa from the Burmese ambassador, he entered the country and met Lt Gen Khin Nyunt, head of military intelligence and first secretary of the State Law and Order Restoration Council (Slorc).

"I think I was the first Burmese to say to him directly to free her. He explained that the army was divided and her detention was a matter of security. But I feel he was honest, genuine."

On the second visit he met Gen Khin Nyunt again, and this time was given permission to see Ms Suu Kyi.

"She was very strong, cheerful, very happy. Also her husband was there. We talked for three hours."

She was less concerned about herself than about the other political prisoners, he said. She also seemed to accept that poor education and economic instability might delay the restoration of democracy. But she asked to see General Than Shwe, the head of Slorc, to discuss things directly.

The abbot then met the head of Slorc and a few weeks later, her wish was granted.

The modest-looking monk is not new to unofficial diplomacy, nor to international platforms. He has spoken at peace conferences in Moscow and Tokyo and at UN assemblies in New York and Geneva. Furthermore, he appears to enjoy the highest standing and connections in Burma, the country of his birth. Today, he is being pursued by the television networks who want to make him a media star.

Our meeting place was as improbable as his mission, a detached house converted into a Buddhist temple near the Brent reservoir off London's North Circular Road. The abbot (as I shall call him for convenience) produced two photographs: the first showed a slender, attractive and cheerful-looking Suu Kyi, sitting on the floor at his feet in her house in Rangoon, the second a group of military men in sim-

ilarly respectful attitudes on the floor of the guesthouse where he met them.

He also showed me a translation of a letter from her after his August visit. Signed "Sun Suu", it thanked him for his attention, advice and compassion and urged him to see a throat specialist for the weakness of his voice which, she wrote, might be caused by chewing betel nut.

The abbot first met Suu Kyi in Benares, India, when she was a little girl and her mother was the Burmese envoy. Her father, Gen Aung San, Burma's resistance hero, had been assassinated in 1947 by rivals on the eve of independence from Britain.

They met again regularly when Suu Kyi studied at Oxford University (she later married Michael Aris, an Oxford don) and the abbot had left India to become a missionary to the west from his base in Birmingham.

The abbot was born Shwe Maung in 1929 — he looks too young for 65 — in the Irrawaddy delta. Although the only son among five children he joined the Theravada order of Buddhist monks at the age of 12. A prize-winning student, he was awarded a state scholarship — the first and only Buddhist monk to get one — to study Hindi and Sanskrit in India, where he completed a PhD, lectured, wrote commentaries and edited, among other works, an encyclopaedia of Buddhist technical terms.

When in 1962 the Burmese government of U Nu was toppled in a military coup led by General Ne Win, the abbot found himself an exile. When later U Nu, a devout Buddhist, himself arrived in India for medical treatment he struck up a friendship with Dr Dhamma. This was enough, said the doctor, to get his name blacklisted in Burma. It was to be 30 years before he saw his homeland again.

While in India, the abbot said, he was asked by Indira Gandhi, the late prime minister, to dissuade U Nu from going back to fight the Burmese junta. Then in 1974 he was asked by Prince Norodom Sihanouk, exiled ruler of Cambodia, to go to Peking and conduct a religious service for the prince's ailing mother. He carried a diplomatic message from Mrs Gandhi to the Chinese leaders.

I asked the abbot why he landed up in Birmingham.

He replied in his indistinct English: "I did not know it. I never heard of Birmingham before." He chuckled. "Also, I wanted to learn English so I could use my knowledge — so more people could understand Buddhism."

You saw the English-speaking world as a promising place for Buddhism?

"I felt so, yes, because many Americans were becoming Buddhist — Europeans also. Many people came east to learn Buddhism in the sixties."

Was it difficult to go to a strange, cold island in the north Atlantic?

"I don't feel like it was difficult. I don't know why but I just found it very homely. I



Tony Andrews

don't have any problems here, even physically." He chuckled again. "I had no colds: many English have fevers."

There was one difficulty: opening a bank account. In Burma, there are no surnames, and the abbot had in any case adopted the single religious name "Rewatadhamma".

"The manager asked for my Christian name," he said, "I told him I don't have a Christian name. And no surname either." He laughed. "So to make things easier I made two words of 'Rewatadhamma'."

He arrived with a letter of introduction from U Nu to Lord Mountbatten, who was later murdered by the IRA, and went to see him.

Were you tired of India?

"No, no. I wanted to teach meditation to the westerners. India doesn't need teachers of Buddhism so much. It has a whole tradition."

So it was missionary work?

"Missionary work, yes." Birmingham now had 10 Buddhist centres, he said, and there were about 125,000 English-born Buddhists (not including the 50-60,000 Asian Buddhist immigrants), more in

Germany and France. He has been doing missionary work in eastern Europe. "Now they are free from communism they are looking for something different," he explained.

"The Buddha says if you are ill, what you need is medicine. It's not important who gives it to you, whether the doctor is American, English, Jewish, Christian or Buddhist. It releases the mind from strains and helps you make good decisions; it teaches us how to see things objectively."

I asked if he was surprised to find himself in the news.

"Not very much. Even if I try and hide myself now I cannot really escape, because this is very important news now."

Do you enjoy the attention?

"Not really... But it is good for the country."

Before his missions to Rangoon, the abbot had approached the UN secretariat in New York and the US State Department where officials encouraged his attempt to find out what was preventing the generals from releasing Aung San Suu Kyi and handing over power following the 1990 elections in which her National

League for Democracy won 60 per cent of the vote.

He explained the Buddhist method of mediation as follows: "I always say like this. We have to learn how to listen to others' problems. When you know their problem, then you will get a good solution."

"Also you try to do it with loving kindness, compassion, if someone is very angry, he can't do anything. He is suffering, so he can't do this good thing. And the same thing if I am feeling anger: I cannot listen to others. My ego, my personality — I am right, the other is wrong — is a block in the way of understanding."

"So when you are talking to both sides, you dispel your ego, your personality and just listen. Then you present your own feelings and try to reconcile them to each other. And that way you get a solution."

Dr Rewata Dhamma has been invited back to Rangoon next month. The military, he said, wanted to talk to him about the place of Buddhism, the creed of an estimated 85 per cent of the multi-ethnic population, in the socialist Union of Myanmar.

As They Say in Europe/James Morgan

## Anchor, engineers and great powers

Germany is a great power, reached by most of the elections there show. One that has elections which others define in the light of their own national interests.

Britain receives a limited version of that compliment because of the obstructive nature of its European policies. On the other hand, no newspaper outside Italy interpreted the outcome of that country's election in terms of what it meant for its readers. But Germany is so treated whether it likes it or not: it is a big country, it has the highest national income in Europe and it has borders with nine other nations.

In the past that has spelt trouble. It might do so again. In the meantime, each nation sees Chancellor Kohl as a Father Christmas, who can give them nice presents or a policeman who might, with luck, be cajoled into adopting a helpful attitude. Thus in Budapest, *Nepszabadszago* wrote: "From a Central European perspective, Kohl's re-election may be especially good news as he may fulfil his pledge of ushering the countries of Central Europe, among which Hungary is numbered, into the European Union and Nato."

In Britain, the papers disagreed among themselves. *The Times* argued that the British should ally themselves with Germany to create a free trading north-western axis in Europe.

*The Daily Telegraph* said they should "build alliances with those within the union who prefer consolidation before contemplating further development".

The French similarly viewed the German election from one point of view. In this case it was the alleged need for what they grandly call the construction of Europe. And, curiously

enough, the conclusion reached by most of the press was one which showed the possibilities of some kind of new *entente* with the British.

The French are obsessed with proposals which envisage the creation of a "hard core" composed of Germany, France and the Benelux countries which would make their own little union. *Le Figaro* called this "squaring the circle" for it would permit the union to develop greater cohesion while allowing it to expand at the same time.

Elsewhere all is hostility. *Sud-Ouest* wrote that Germany is anxious to organise the Europe of which it

'Each nation sees chancellor Kohl as a Father Christmas'

dreams: "A pledge of peace and a market made-to-measure."

*Infokatin* said Germany was adopting a take-it-or-leave-it policy. That, if pursued, would unleash a noisy wave of objections in France from anti-Maastricht elements. These include personalities near to the tough interior minister, Charles Pasqua, who "do not hesitate to compare the geographical limits of the 'hard core' with the frontiers of the Holy Roman Empire." They now believe that anyone who says "yes" to the Germans are incorrigible "Vichystes". In other words, going along with the German project is a form of treason.

Most agreed that since Chancellor Kohl was now in his last term in office he was going to do all he could to achieve the integration of Europe, just as he had achieved German unification.

Once again we see the growing complexity of intra-European relationships. The British bitterly oppose the creation of a hard-core club they would not join anyway. They want expansion, which is the idea of more integration. The French want more integration, to drive the union ever closer together, so long as they are doing the driving. They have supreme faith in their own ideas until they emanate from Germans.

In Germany there is continued reluctance to accept the country's new role. It is one which many had hoped would never be assumed again in the light of the catastrophic results of previous experiments in German leadership.

A surprised *Die Welt* remarked: "Whoever glances beyond our frontiers is amazed. Kohl's re-election finds an overwhelming echo of admiration abroad, far better than the CDU bosses could have dreamed. There, everybody speaks of the guarantor of stability, of his reliable style of government, of a locomotive for integration and many other laudatory epithets."

That there is a small parliamentary majority is noted with regret. What is stressed is the strength of German democracy, its desire for partnership and its stability.

This is the great paradox. The Germans themselves speak of the need to keep Germany firmly anchored in Europe. But the more firmly it is anchored, the more Germany becomes the motor and the more it risks being seen as too powerful and a threat. You do not need an engineer to picture what happens when someone starts what is either a firmly anchored motor or a motorised anchor.

James Morgan is economics correspondent of the BBC World Service.

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